PayRay Bank, UAB

FINANCIAL STATEMENTS AND ANNUAL REPORT

for the year ended 31 December 2023

Prepared in Accordance with International Financial Reporting Standards, as Adopted by the European Union, Presented Together with Independent Auditor's Report

Translation note:
This version of financial statements is a translation from the original, which was prepared in Lithuanian language. All possible care has been taken to ensure that the translation is accurate representation of the original, however, in all matters of information, views or opinions the original language version of financial statements takes precedence over this translation.

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General information

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Lvivo st. 25-702, Vilnius, Lithuania

Renato La Fianza (Head of Administration)

Board members

Renato La Fianza
Paulius Jokšas
Gianluca Balducci
Jurgita Blažienė

Registered office

Lvivo st. 25-702, Vilnius, Lithuania

Audit firm

Grant Thornton Baltic UAB
Upės st. 21-1, LT-08128 Vilnius

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF PAYRAY BANK, UAB

Report on the audit of the Bank and Group financial statements

Opinion

We have audited the separate financial statements of PayRay Bank, UAB and consolidated financial statements of PayRay Bank, UAB and its subsidiaries (the Group) which comprise the separate and consolidated statement of financial position statement as at December 31, 2023, and the separate and consolidated statement of profit and loss and other comprehensive income, separate and consolidated statement of changes in equity and separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, the separate and consolidated financial position of the Bank and Group as at December 31, 2023, and its separate and consolidated financial performance and its separate and consolidated cash flows for the year then ended in accordance with the Law of the Republic of Lithuania on accounting and financial reporting, and International financial reporting Standards, adopted by European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 2014 April 16 the European Parliament and of the Council Regulation (EU) No 537/2014 on specific statutory audit requirements for public interest entities (Regulation (EU) No 537/2014 of the European Parliament and of the Council). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank and Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of Financial Statements of the Republic of Lithuania that are relevant to audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

Expected credit losses for Loans and factoring receivables

Refer to Material accounting policies sections „Impairment of financial assets", „Measurement of ECL", „Significant increase in credit risk (SICR)", „Definition of default", „Probability of default and credit risk classes", „Credit-impaired financial assets", „Incorporation of forward-looking information", „Forborne financial assets", „Presentation of allowance for ECL in the statement of financial position", „Change in methodology for assessment of the accounting estimate", note 12 „Loans to customers and factoring receivables" and note 22 „Risk management" section „credit risk", pages respectively. 27-30, 47-48 and 54-69.

As at 31 December 2023 in the Bank's and Group's statements of financial position, expected loan credit losses amounted to 2 111 thousand euros and 2 148 thousand euros respectively (note 12).

Bank's and Group's provisions for impairment due to credit risk of loans in 2023 year was 426 thousand euros and 379 thousand euros respectively in profit or loss and other comprehensive income statements for the year ended.

Provisions for impairment due to credit risk reflect the expected credit losses (ECL) related to granted loans (positions) as the best assessment of the management on the date of the financial statements. We focused on this area because management is subject to complex and subjective judgments in determining impairment amounts.

The assessment of changes and valuation of active positions (stage 1 and 2 according to the hierarchy established in IFRS 9) and non-performing positions (stage 3) is carried out based on the Bank's and Group's knowledge of the circumstances of each specific borrower and their understanding. The related impairment provisions are determined on a case-by-case basis through a discounted cash flow analysis.

In the reporting year, the bank was inspected by the supervisory authority, which included an assessment of the credit risk management and expected credit loss model, and for the reason of matters mentioned above we considered that during the audit, the impairment of the value of the granted loans and factoring receivables are related to a significant risk, therefore we paid increased attention to this area. Accordingly, we considered this area to be a key audit matter.

How the Matter Was Addressed in the Audit

We, among other audit procedures, performed the following audit procedures in this area:

- we have gained an understanding of Bank and Group ECL's impairment methodology and assessed whether it meets the relevant requirements of the 9th IFRS standard. By performing the procedures, we determined the relevant methods, assumptions and data sources and assessed whether these methods, assumptions and data and their application are appropriate in light of the requirements of IFRS 9.
- we have gained an understanding of the significant control deficiencies regarding the application of the ECL model and credit risk management presented in the 10-05-2023 targeted and unscheduled inspection report by the Bank of Lithuania.
- we have gained an understanding of the Bank's TKN estimates in response to the Bank of Lithuania's 2023-05-10 targeted unscheduled inspection report, the correction of the Bank's significant control deficiencies in the field of credit risk management. We have also evaluated the updated assumptions that were applied in the TKN model.
- we have made inquiries to the employees of the Bank's risk management and information technology (IT) areas, in order to gain an understanding of the IT programs used in the loan impairment process. In addition, we assessed and verified the Bank's data security and access control environment.
- we have inspected how the selected controls for loan approval, accounting and monitoring are implemented and functioning, including, but not limited to, controls for loan risk monitoring, loss events, default detection; in addition, we inspected the appropriateness of the classification into active and inactive positions, the calculation of past due days and the general estimate of ECL.
- we have assessed whether the default definition and staging criteria were consistently applied in accordance with relevant international financial reporting standards.
- we have critically assessed whether there are any matters, taking into account the underlying documents (loan files) and discussions with the management and the business operations of the relevant customers, market conditions and historical loan repayment trends, that on 31 December 2023 would lead to assignment to stage 3.
- for exposures that may be assigned to Stage 3, we inspected the Bank's main assumptions used in calculating future cash flows, such as collateral values (including impairment factors) and realization periods. We inspected external valuator reports, relied on the Bank's internal evidence and analysis and publicly available market transaction data.
- based on the requirements of the applicable financial reporting standards, we assessed the accuracy and completeness of loan impairment and credit risk related disclosures in the financial statements.

Other Information

The other information comprises the information included in the Bank's and Group's annual report of 2023 year, but does not include the separate and consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In addition, our responsibility is to consider whether information included in the Bank's and Group's annual report for the financial year for which the financial statements are prepared is consistent with the financial statements and whether annual report has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of financial statements, in our opinion, in all material respects:

- The information given in the Bank's and Group's annual report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Group's annual report has been prepared in accordance with the requirements of the Law on Reporting by Undertakings of the Republic of Lithuania.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with the Law of the Republic of Lithuania on accounting and financial reporting, and International financial reporting Standards, adopted by European Union, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Bank's and Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and Group or to cease operations, or has no realistic alternative but to do so.

The persons responsible for management must supervise the preparation of the Bank's and Group's separate and consolidated financial statements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We shall communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Other requirements for the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In accordance with the decision made by shareholders on 30 June 2022 we have been chosen to carry out the audit of the Bank's and Group's 2022 and 2023 year separate and consolidated financial statements. Our appointment to carry out the audit of Bank's and Group's financial statements in accordance with the decision made by shareholders has have been renewed every 2 years and the period of total uninterrupted term of appointment is 2 year.

We confirm that our opinion in the section 'Opinion' is consistent with the additional audit report which we have submitted to the Bank and Group and its audit committee.

We confirm that in light of our knowledge and belief, services provided to the Bank and Group are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In the course of audit, we have not provided any other services except for audit of separate and consolidated financial statements.

The engagement partner on the audit resulting in this independent auditor's report is Darius Gliaubicas.

Grant Thornton Baltic UAB
Audit company's certification No. 001513
Upės str. 21-1, Vilnius

Certified auditor
Darius Gliaubicas
Auditor's certification No. 000594
30 April, 2024

Consolidated Annual Report for the year ended 31 December 2023

1. Reporting period covered by the Consolidated Annual Report

This Consolidated Annual Report (hereinafter the "Report") has been prepared for the year ended 31 December 2023. All numbers are rounded to the nearest thousand euro and presented as at 31 December 2023, unless specified otherwise. The annual management report presents the information of PayRay Bank, UAB ("the Bank") and its subsidiaries PayRay SIA and PayRay Estonia OU (jointly referred to as "the Group").

2. Information about the Group companies:

Company name	PayRay Bank, UAB
Legal form	Private limited liability company
Address	Lvivo st. 25-702, Vilnius, Lithuania
Company code	304862948
Year of registration	2018

Main activities. PayRay Bank UAB is a credit institution operating in Lithuania under the licence issued by the Bank of Lithuania to accept deposits and other repayable funds from non-professional market participants and to provide financing services to legal entities and farmers. The Company started banking activity on 15 October 2020. The Bank is supervised and regulated by the Bank of Lithuania and European Central Bank.

Company name	PayRay SIA
Legal form	Private limited liability company
Address	Gustava Zemgala g. 74, Ryga, Latvia
Company code	40203260896
Year of registration	2020

Main activities. PayRay SIA is the Bank's subsidiary, operating in Latvia. The Company provides financing services to legal entities in Latvia through the Bank's financial support. PayRay Bank UAB holds 100% of the Company's issued capital and voting rights.

Company name	PayRay Estonia OU
Legal form	Private limited liability company
Address	Narva g. 5, Tallinn, Estonia
Company code	16147024
Year of registration	2021

Main activities. PayRay Estonia OU is the Bank's subsidiary, registered in Estonia. The company is commercially inactive. PayRay Bank UAB holds 100% of the Company's issued capital and voting rights.

3. State of the Group and overview of activities

The Group's principal activity is the provision of credit products (loans, factoring and lease) to small and medium-sized enterprises. The Group raises the funds it needs to operate its business by collecting deposits from natural and legal persons.

In 2023, the economic slowdown was observed in all of the Group's main markets: Lithuania, Latvia and Germany. Lithuania experienced a technical recession in 2023 (GDP contracted for two consecutive quarters), with annual GDP falling by 0.3%. Meanwhile, both the German and the Latvian economies, while avoiding falling into a technical recession in 2023, did not show steady growth, with their annual GDP contracting by 0.3% each in 2023.

Growth was also held back by the European Central Bank's continued its tight monetary policy in 2023 in response to high inflation in the euro area. At the end of 2022, the European Central Bank fixed the interest rate on the main refinancing operations at 2.5% and raised by a further 2 percentage points over the course of 2023 to 4.5% in December 2023. The increase in base rates affected interbank rates, resulting in an increase in the 6-month Euribor by 117 basis points per year (from 2.69% as at 30 December 2022 to 3.86% as at 29 December 2023). Given that this interbank rate was still negative at the beginning of June 2022, the rise in interbank rates over the last 18 months has been particularly sharp and has significantly increased the funding costs not only for businesses but also for individuals. This constrained economic activity, as businesses find it harder and more expensive to fund investments, and the purchasing power of the population with credit commitments fell due to higher interest rates.

In 2023, the Group focused its financing services to the Lithuanian market and tightened the customer creditworthiness requirements to manage the increased credit risk. The Group's actions were driven by the uncertain macroeconomic situation and an increase in the non-performing loans portfolio (6.0%, the Bank's - 7.4%). This in turn caused the Group's financing portfolio to decrease from EUR 184,070 thousand as at 31 December 2022 to EUR 149,204 thousand as at 31 December 2023 (the Bank's from EUR 183,854 thousand to EUR 149,064 thousand).

EUR thousand	Group		Bank	
	As at 31 December 2023	As at 31 December 2022	As at 31 December 2023	As at 31 December 2022
Loans	96,887	133,905	97,069	134,900
Factoring	34,383	30,834	34,383	30,744
Lease	17,934	19,331	17,612	18,211
Total	**149,204**	**184,070**	**149,064**	**183,854**

Given that the Group's and the Bank's financing portfolios are largely made up of floating-rate products, the impact of the increase in interbank interest rates offset the decrease in the financing portfolio, and, therefore, the Group's interest income in 2023 grew by 35% (the Bank's by 40%).

However, due to the nature of the Group's business, in which lending activities are largely financed through term deposits from natural persons, the increase in base rates also had a significant impact on the Group's interest expense. While the deposits accepted by the Group decreased by 26% during the year, interest expense increased by 84% (for the Bank - 26% and 84%, respectively) due to the increase in the market interest rates offered by the Group to its depositors to remain competitive and to attract the funds it needed to conduct its business.

In light of rising interest rates, the Group took actions to reduce its financing costs. At the beginning of 2023, the Group collected deposits from private individuals in Germany via the Raisin platform, and from legal entities in Lithuania. During 2023, the Group joined a new deposit collection platform in Germany and the Raisin platform in Spain, and thereby to diversify its channels for collecting deposits from private individuals, and to reduce financing costs. The Group also took active steps to attract deposits from legal entities in Lithuania and to reduce excess liquidity costs by increasing its portfolio of government securities. This enabled the Group to minimise the negative impact of higher interest rates on deposits.

The increase in base interest rates had a positive impact on the Group's financial performance as increase in interest income was higher than interest expense, resulting in a 18% increase in the Group's net interest income for the year and a 23% increase for the Bank.

In 2023, the Group made efforts to improve the efficiency of its operations and strengthen its internal control and risk management processes. The Group achieved these objectives through a comprehensive OpEx analysis and optimisation, which resulted in a 15% reduction in the Group's OpEx (14% for the Bank) during the reporting period. Despite a strong focus on streamlining operations, in 2023 the Group significantly improved its risk management framework and increased the number of personnel in risk management.

As a result of the increase in net interest income and cost optimisation actions, the Group and the Bank recorded positive financial performance in 2023, with the Group generating a net profit of EUR 1,806 thousand in 2023 (a loss of EUR 3,581 thousand in 2022), while the Bank earned a net profit of EUR 1,872 thousand (a loss of EUR 4,095 thousand in 2022). This in turn caused the Group's financing portfolio to increase from EUR

29,486 thousand as at 31 December 2022 to EUR 31,291 thousand as at 31 December 2023 (the Bank's from EUR 29,469 thousand to EUR 31,341 thousand).

The Bank's and the Financial Group's compliance with prudential ratios as at 31st December 2023 is presented in the table below: The Financial Group consists of PayRay Bank UAB, PayRay SIA, PayRay Estonia OU and 2404 S.A., the Bank's parent company. The table shows the Financial Group's ratios as it is the Financial Group regulated at the consolidated level rather than the Group.

Indicator	Financial Group	Bank
Total capital adequacy ratio	14.06%	29.07%
Leverage ratio	6.40%	13.45%
Liquidity coverage ratio	1,617.35%	1,628.52%
Net stable funding ratio	186.13%	199.90%
Large exposure indicator	36.13%	17.13%

During the reporting period, the Financial Group and the Bank complied with all prudential ratios, except for the large exposure indicator at the Financial Group level. Based on the Financial Group management's estimates, the Financial Group will be in compliance with the large exposure indicator at the Group level at the end of Q2 2024 by implementing the plan of measures prepared by the management of the Financial Group. In accordance with the requirements of legal acts, the Bank's parent company 2404 S.A. is responsible for ensuring the consolidated compliance with the prudential requirements applied to the Financial Group, since the Bank's parent company 2404 S.A. has not appointed the Bank to be responsible for ensuring the consolidated compliance with the applicable prudential requirements.

4. *Strategy and business plans*

In 2023, the Group's activities covered the German, Lithuanian, Latvian and Spanish markets. In Germany and Spain, the Bank provided deposit services to individuals through the Raisin and a new deposit collection platform. In Lithuania, deposits were collected from legal persons. Although financing was provided in the Lithuanian and Latvian markets, no new financing agreements have been concluded in the Latvian market since the beginning of 2023.

At the end of 2023, the Group's management decided to discontinue the activities of the Group's company PayRay SIA in the Latvian market from 2024, and to transfer the financing portfolio of PayRay SIA to the Bank. The changes in the Group's structure have been initiated based on the Group management's decision to focus its activities to the Lithuanian market.

The Group has no physical service locations, except for the central headquarters in Vilnius. The Bank collects deposits from non-professional market participants through deposit collection platforms, while deposit services to legal entities are provided via direct or remote meetings. Financing services are offered to legal entities and natural persons for business purposes via direct or remote meetings.

The Group's main customers in the provision of financing services are small and medium-sized enterprises, and its competitive edge is determined by the customer-oriented principles:

- Flexible business financing solutions;
- Fast and smooth processes from decision-making to client financing;
- Expertise in the segment of small and medium-sized businesses.

In 2023, the Group focused attention on streamlining and strengthening operational and internal control processes and improving governance. During the reporting year, the Group's Environmental, Social and Governance (ESG) Risk Management Policy was finalised and approved, and other related risk management policies were updated to include ESG Risk Management Policy. ESG risk analyses have been launched at client level to assess ESG risks at low, medium and high levels.

During the reporting year, the Group updated its methodologies for determining the probability of default and estimating expected credit losses. At the end of 2023, the Group launched three new probability of default models for its business customers based on different types of customer activities, thus including all the Group's customers in the assessment of the probability of default. All of the Group's models for determining the customer's probability of default assess the customer's probability of default, and, in line with regulatory requirements, take into account the events of default with respect to financial institutions, the customer's most recent financial information, the customer's future cash flows, significant payment obligations after 12 months, and the macro-economic forecasts.

In 2023, fundamental changes were made to the methodology for estimating expected credit losses, taking into account the existing collateral of the financial instrument and clearly defined estimates of recovery rates for types of collateral. The value of collateral relative to the financial asset used to calculate expected credit losses is also adjusted to take into account the assessment of forward-looking information, i.e. forecast market expectations and potential price adjustments in the market.

Also in 2023, the Sanctions Policy and the Policy on the Outsourcing of Operational Functions were updated to reflect changes in legislative requirements.

In 2024, the Group will give priority to the following activities:

- growing the customer base in the Lithuanian market to further diversify the Group's loan portfolio by products and sectors;
- expanding sources of funding by starting to collect deposits from natural persons in the Kingdom of the Netherlands and by stepping up efforts to attract deposits from legal persons on the Lithuanian market;
- implementing higher standard internal control, risk management and governance practices.

5. Information on research and development

In 2023, the Group and the Company did not perform research and development activity.

6. Organisational structure

The Bank's organizational structure meets the specifics of the business model on the provision of banking services and implementation of advanced international business practices.

The Supervisory Council consists of four independent members who are not related to the Bank in terms of employment relations.

The Supervisory Council appoints the Bank's Management Board which currently consists of: the Head of Administration, the Deputy Head of Administration, the Head of Baltic Business, the Chief Technology Officer and the Chief Operating Officer. The Management Board makes day-to-day executive decisions and implements the strategy of the Bank, implements risk management framework.

The Bank has established the Audit Committee consisting of five members, of which four members are the same as those of the Bank's Supervisory Council.

7. Governance structure

The Bank's management bodies are the General Meeting of Shareholders, the Supervisory Council, the Management Board, and the Head of Administration.

The Heads of the Bank are the members of the Supervisory Council, members of the Management Board, the Head of Administration, the Deputy Head of Administration, and the Head of the Internal Audit.

The General Meeting of Shareholders is convened annually, no later than four months after the end of the financial year. Extraordinary general meetings of shareholders may also be convened. The General Meeting of Shareholders has an exclusive right to:

- Amend the Articles of Association of the Bank, except for the exceptions set by legal acts;
- Elect and revoke the members of the Bank's Supervisory Council;
- Elect and revoke an audit company to perform the audit of the annual financial statements; set the conditions for payment for audit services;
- Approve the set of the Bank's annual financial statements, distribution of profit (loss), formation, use, reduction, and annulment of reserves;
- Increase and reduce authorised capital except for the exceptions set by legislation;
- Adopt other decisions provided in the Articles of Association of the Bank.

The General Meeting of Shareholders may also decide on other issues if, following the legislation and the Bank's Articles of Association, it is not assigned to other Bank's bodies and if these are not the functions of the Bank's management bodies.

The Bank's Supervisory Council is a collegial supervisory body supervising the Bank's activities. The Supervisory Council is headed by its chairman. The functions of the Supervisory Council are governed by the Rules of Procedure of the Supervisory Council. The Bank's Supervisory Council, consisting of four members, is elected by the General Meeting of Shareholders for a period of four years. Four independent members have been elected to the current Supervisory Council. The functions of the Supervisory Council:

- Elects the Bank's Management Board members and removes them from office. If the activities of the Bank are loss-making, the Supervisory Council must consider whether the Management Board members are fit for the position;
- Supervises the activities of the Management Board and of the Head of Administration;
- Adopts the working regulation of the Bank's Supervisory Council;
- Approves the Bank's activity plans;
- Ensures that effective internal controls and internal audit systems are in place;
- Forms the Audit Committee and approves its regulations;
- Submits suggestions and feedback to the General Meeting of Shareholders on the Bank's activity strategy, the set of the Bank's annual financial statements, draft appropriation of profit (losses), and the Bank's annual management report as well as on the activity of the Head of Administration;
- Submits suggestions to the Management Board and the Head of Administration to revoke their decisions if they are in conflict with laws and other legal acts, the Bank's Articles of Association, or decisions of the General Meeting of Shareholders;
- Considers and makes decisions on other matters which, based on the legislation, the Bank's Articles of Association.

The Bank's Management Board is a collegial management body of the Bank consisting of four members. It manages the Bank and is liable for the Bank's financial services. The Management Board function is regulated by the Working regulations of the Management Board. The Management Board members are elected, removed from office, and supervised by the Bank's Supervisory Council. The Bank's Management Board considers and approves:

- The Bank's annual management report;
- The Bank's governance structure and employees' positions as well as positions to which employees are recruited with the approval of the Management Board;
- The Bank's risk management policies;
- Regulations of the Bank's Credit Committee;
- The Bank's business continuity plan;
- The Bank's rules to prevent money laundering and terrorist financing;
- The Bank's financial accounting and reporting policies;
- The Bank's capital and liquidity adequacy assessment policies;
- other documents and policies relevant to the Bank.

In addition, the Management Board elects (appoints) and removes from office the Bank's Head of Administration and Deputies.

The Management Board makes the following decisions:

- Decisions on the Bank's becoming the founder or participant of other legal entities;
- Decisions on the establishment of the Bank's branches, representative offices, and other distinct Bank's branches or on terminating their activities;
- Decisions on the investment, disposal or lease of non-current assets the carrying amount of which exceeds 1/20 of the Bank's authorised capital (calculated separately for each type of transaction);
- Decisions on the pledge and mortgage of non-current assets the carrying amount of which exceeds 1/20 of the Bank's authorised capital (total amount of transactions);
- Decisions on sureties or guarantees for obligations of other persons the amount of which exceeds 1/20 of the Bank's authorised capital;
- Decisions on the acquisition of non-current assets for the price exceeding 1/20 of the Bank's authorised capital;
- Decisions on the issuance of non-convertible bonds;

- Decisions on other matters which, under the legislation and under the Bank's Articles of Association, must be considered and decided by the Management Board.

The Management Board implements the decisions taken by the General Meeting of Shareholders and by the Supervisory Council. The Management Board analyses and assesses the information submitted by the Head of Administration on:

- Implementation of the Bank's activity plans;
- Organization of the Bank's activities;
- Financial position of the Bank;
- Results of economic activities, income and expenses, accounting date of stock-taking and other changes in assets.

In addition, the Management Board analyses, and assesses the Bank's set of annual financial statements and draft appropriation of profit (loss) and submits them to the Supervisory Council and the General Meeting of Shareholders. Also, the Management Board decides on other matters if, based on the legislation or the Bank's Articles of Association, they are not assigned to other Bank's bodies. The Management Board is responsible for the timely convening and organising of the General Meeting of Shareholders.

The Head of Administration is the sole management body of the Bank organizing the Bank's activities and performing actions necessary to perform the Bank's functions, implement the decisions of the Bank's bodies, and ensure the Bank's activities.

The Head of Administration acts on behalf of the Bank and is entitled to unilaterally conclude transactions except for the exceptions set by laws, the Bank's Articles of Association, or the decisions of the Bank's bodies.

Committees of the Bank

The following four committees are in the Bank: the Credit Committee, the Audit Committee, the Assets and Liabilities Committee and the Debt Management Committee.

The Credit Management Committee is established by the Management Board. **The Credit Committee** is responsible for the supervision of the Bank's credit risks. The main responsibilities of the Debt Management Committee are examining client credit requests, deciding on financing, and setting financing conditions.

The Debt Management Committee is chaired by the Head of Credit Risk Department.

The Audit Committee is established by the Supervisory Council. **The Audit Committee** is responsible for overseeing the effectiveness of the Bank's internal control, risk management, and internal audit systems, legal compliance of the Bank's operations, and the process of financial reporting within the Bank.

The Audit Committee consists of five members, of which four members are the same as those of the Bank's Supervisory Council. The Chairman of the Supervisory Council is appointed as the Chairman of the Audit Committee.

The Assets and Liabilities Committee is established by the Management Board. **The Assets and Liabilities Committee** is responsible for implementing the liquidity strategy of the Bank, its assessing and making relevant decisions.

The Assets and Liabilities Committee is chaired by the Chief Financial Officer.

The Debt Management Committee is established by the Management Board. **The Debt Management Committee** is responsible for monitoring overdues of the customers, making and implementing decisions with regard to customers' overdues and debt recovery.

The Debt Management Committee is chaired by the Chief Loan Workout Officer.

8. Risk management and internal controls

The detailed information on the Group's main risks and their management framework is provided in the section 22 of the Notes to the Financial Statements.

The Group acknowledges that every employee of the organization is responsible for the effectiveness of risk management and internal control framework.

The Group does not in any case allow, promote, facilitate nor tolerate the practices related to bribery, corruption, embezzlement and such practices are against the values and risk culture of the Group. It is prohibited for employees to give, accept or facilitate the bribes and corruptive practices. In order to ensure appropriate behaviour from employees and to prevent corruption, bribery or any other inappropriate/improper behaviour, the Bank and its subsidiaries has approved Code of conduct and ethics, as well as anti-bribery, anti-corruption, gifts and invitations procedure, additionally training sessions for employees in this field are conducted at least on once a year.

To manage risks, the Bank uses the three lines model. The three lines model contributes to a better understanding of risk management and control by clarifying the different roles and duties expected from each employee.

The three lines model distinguishes three groups (or lines) participating in effective risk management:

- Functions assuming and managing risks;
- Functions responsible for risk control;
- Functions responsible for the independent assessment of the efficiency of risk management processes and internal control framework.

First line comprises all risk owning functions at the Bank. The first line includes functions such as Sales, Operations, Credits, Loan Workout, Treasury, Finance, Legal and IT, which are considered risk owners.

Second line comprises the Bank's risk monitoring and supervision functions. It comprises of Risk management function, Compliance function, Information security function, Data protection function, and Prevention of money laundering, terrorist financing and financial crimes function.

Risk management function, steered by the Head of Risk Management, is responsible for:

- Carrying out the supervision and control of the risk management process at the Group. It also actively provides guidelines and support to other structural divisions of the Group in implementing and maintaining a strong and sustainable risk culture;
- Identification, control and analysis of all the main risks which affect or may affect the Group's activities. The Risk management function shall also control whether other structural divisions of the Group ensure appropriate oversight of their main risks;
- The control of the process of assessing and identifying any risks that may arise during the implementation of new products or material amendments thereof, and how this may affect the Group's overall risk and risk profile.

Chief Risk Officer is accountable to the Management Board and reports directly to the Head of Administration.

Compliance function is responsible for behavioural and compliance risk. It is responsible for the detection, assessment and monitoring of the Bank's behavioural and compliance risks and implementation of control framework, as well as for the submission of reports on the Bank's compliance with the effective laws and other regulations to the Bank's management bodies. This includes: assistance to the first line in identifying existent and potential behavioural and compliance risks and implementation of control measures to mitigate these risks; and monitoring and testing of the efficiency of control measures to prevent behavioural and compliance risks from occurring or mitigating them as well as trainings for employees.

Head of Compliance is accountable to the Management Board and directly reports to the Chief Operating Officer.

The Prevention of money laundering, terrorist financing and financial crimes function bears the same responsibilities as the compliance function, only in the area of prevention of money laundering, terrorist financing and financial crime. The responsibilities of this function include developing, maintaining and evaluating the system for assessing the risk of money laundering and terrorist financing, and sanctions, monitoring and implementing the control system, implementing procedures, advising on a high-risk client acceptance and continuance, reporting to the Group's governing bodies, managing suspicious transaction reports and training staff.

The Anti-Money Laundering and Counter-Terrorism Financing Compliance Officer is accountable to the Management Board and directly reports to the Chief Operating Officer.

Third line comprises the Internal Audit function, which is independent from the first and second lines. Internal Audit function assess:

- Appropriateness of the Bank's governance framework;
- Adequacy and compliance of the existing policies and procedures with legal and regulatory requirements and with the risk appetite and strategy of the Bank;
- Adequacy, quality and effectiveness of the controls performed and the reporting done by the business units and the risk management and compliance functions.

The Internal Audit Manager is accountable to the Audit Committee which holds meetings at least quarterly. The Audit Committee accounts to the Bank's Supervisory Council at least once a year.

9. *Employees and remuneration policy*

Information on the Group's employees and remuneration policy is provided in the Notes of the Financial Statements and the Group's Risk Management and Capital Adequacy Report (https://www.payray.bank/financial-reports/).

10. *Information on the positions held by managers*

Information on other functions of the Head of Administration, the Management Board members and the members of the Supervisory Council is presented in the table below:

Name, surname	Management body of PayRay Bank, UAB	Main employment	Duties at the company PayRay Bank, UAB	Managerial positions in other companies/organisations	Duties at other company/organisation
Renato La Fianza	Management Board	PayRay Bank, UAB (304862948, Lvivo st. 25, Vilnius, Lithuania)	Head of Administration	PayRay SIA (40203260896, Duntes st. 3, Riga)	Member of the Board
Paulius Jokšas	Management Board	PayRay Bank, UAB (304862948, Lvivo st. 25, Vilnius, Lithuania)	Deputy Head of Administration	PayRay SIA (40203260896, Duntes st. 3, Riga)	Member of the Board
Gianluca Balducci	Management Board	PayRay Bank, UAB (304862948, Lvivo st. 25, Vilnius, Lithuania)	Chief Technology Officer	-	-
Jurgita Blažienė	Management Board	PayRay Bank, UAB (304862948, Lvivo st. 25, Vilnius, Lithuania)	Chief Operating Officer	-	-
Gintautas Galvanauskas	Supervisory Council	UAB Joldija (133865639, Tikslo st. 10, Kaunas dist., Lithuania) – Chairman of the Board, Head of Business Development	Chairman of the Supervisory Council Chair of the Audit committee	GGLIF, UAB (305825276, Lvivo st. 25, Vilnius, Lithuania)	CEO
				VŠĮ Futbolo klubas (304984471, J.Basanavičiaus st. 26, Vilnius, Lithuania)	Member of the Board
				Raft Capital Management, UAB (Gedimino av. 50, Vilnius, Lithuania)	Partner
Kęstutis Šliužas	Supervisory Council	IPI Srl (IT03291129, Giuseppe Piermarini st. 19, Perugia, Italy) – Chief Executive Officer	Member of Supervisory Council Member of the Audit committee	AB Lietuvos Geležinkeliai (110053842, Geležinkelio st. 16, Vilnius, Lithuania)	Chairman of the Board
Tomas Andrejauskas	Supervisory Council	Satimed UAB (303408412, Kauno st. 37, Utena, Lithuania) –	Member of Supervisory Council	Fitodenta, UAB (305460265, Raudondvario rd. 148, Kaunas, Lithuania)	CEO

Name, surname	Management body of PayRay Bank, UAB	Main employment	Duties at the company PayRay Bank, UAB	Managerial positions in other companies/organisations	Duties at other company/organisation
		Head of Business Development, Partner	Member of the Audit committee	Lithuanian BIO (126374821, Balčikonio st. 3, Vilnius, Lithuania)	President, Chairman of the Board;
Roberto Pollara	Supervisory Council	-	Member of Supervisory Council Member of the Audit committee	-	-

11. Shareholder, issued capital and data on acquisition of own shares

As at 31 December 2023, the sole shareholder of the Bank was 2404 S.A. holding 100% of shares in the Bank. On 13 September 2022, the Board of the Bank of Lithuania adopted a decision in which the sole shareholder's voting rights were temporarily suspended. As a result of the enforcement measure, the shareholder was unable to approve the Group's and the Bank's financial statements for the year ended 31 December 2022.

Information about the Bank's and the Group's issued capital is disclosed in Note 18 to the financial statements.

The Bank does not hold and did not acquire its own shares in 2023. Subsidiaries did not acquire the Bank's shares either. The Bank and its subsidiaries have neither acquired nor disposed own shares during the reporting period.

12. Significant events after the end of the reporting period

In 2023, the Bank of Lithuania carried out a non-routine inspection of the Bank on the issues of the Bank's governance, the management of internal control, credit risk, liquidity risk and interest rate risk in the banking book, operational risk management and management of transfer of operational functions areas. On 15 January 2024, the Board of the Bank of Lithuania adopted a resolution, which obliged the Bank to remedy the breaches of the legal acts and deficiencies in the aforementioned areas, as well as imposed a fine of EUR 210 thousand. Most of the breaches and deficiencies identified by the Bank of Lithuania were remedied before the inspection findings were considered by the Board of the Bank of Lithuania, while the remaining deficiencies were remedied by the 30 April 2024.

In February 2022, after the Russian Federation recognized the independence of the separatist "republics" of Donetsk and Luhansk and invaded Ukraine, the military conflict escalated and spread to other regions of the country. Geopolitical tensions further escalated in October 2023, when Hamas attacked Israel, leading to a military conflict in the Gaza Strip. When preparing 2023 financial statements, the ongoing geopolitical conflicts and significant changes in the geopolitical context were taken into account. The mentioned geopolitical tensions do not have a significant impact for 2023 financial statements and are not significant for the activities of the Group and the Bank.

The Consolidated Annual Report was prepared on 30 April 2024.

PayRay Bank, UAB
Head of Administration
Renato La Fianza

PayRay Bank, UAB
Bank code: 304862948, Lvivo st. 25-702, Vilnius, Lithuania

Group's and Bank's statements of financial position

for the year ended 31 December 2023

EUR thousand	Notes	As at 31 December 2023		As at 31 December 2022 CORRECTED		As at 01 January 2022 CORRECTED	
		Group	Bank	Group	Bank	Group	Bank
Assets							
Cash on hand and balances with central banks	17	25,905	25,901	66,415	66,413	55,091	54,523
Securities issued by governments	13	37,579	37,579	22,790	22,790	-	-
Loans to customers and factoring receivables	12	149,204	149,064	184,070	183,854	120,543	119,674
Investments into subsidiaries	14	-	-	-	3	-	2,003
Intangible assets	10	219	219	364	364	83	30
Property, plant and equipment	9	172	172	296	275	168	113
Right-of-use assets	11	308	308	309	309	341	238
Deferred tax asset	8	325	325	619	619	479	479
Trade and other receivables	15	764	765	478	472	71	112
Other assets	16	186	394	85	220	28	26
Total assets		**214,662**	**214,729**	**275,426**	**275,318**	**176,804**	**177,198**
Liabilities							
Customer deposits	19	178,745	178,745	241,916	241,916	141,561	141,561
Lease liabilities	11	313	313	311	311	335	240
Payables	20	3,853	3,826	3,263	3,224	1,433	1,427
Provisions for off-balance sheet liabilities	22	1	1	18	18	137	137
Income tax payable	8	166	166	-	-	-	-
Other liabilities	20	293	337	432	380	149	149
Total liabilities		**183,372**	**183,387**	**245,940**	**245,849**	**143,615**	**143,514**
Equity							
Issued capital	18	36,425	36,425	36,425	36,425	36,425	36,425
Retained earnings	18	(5,134)	(5,083)	(6,939)	(6,956)	(3,236)	(2,741)
Total equity		**31,291**	**31,341**	**29,486**	**29,469**	**33,189**	**33,684**
Total equity and liabilities		**214,662**	**214,729**	**275,426**	**275,318**	**176,804**	**177,198**

The accompanying notes are an integral part of these consolidated financial statements.

Head of Administration		2024.04.30
Renato La Fianza	*(signature)*	*(date)*
Chief Financial Officer		2024.04.30
Simonas Skaržauskas	*(signature)*	*(date)*

Group's and Bank's statements of profit or loss and other comprehensive income

for the year ended 31 December 2023

EUR thousand	Notes	As at 31 December 2023		As at 31 December 2022 CORRECTED	
		Group	Bank	Group	Bank
Interest income calculated using effective interest method	6	16,379	15,956	12,119	11,431
Interest expenses	6	(5,694)	(5,694)	(3,091)	(3,091)
Net interest income (expense)		10,685	10,262	9,028	8,340
Commission income	6	303	260	150	148
Commission expenses	6	(10)	(10)	(51)	(41)
Net commission income (expenses)		292	250	99	107
Other operating income	6	42	240	76	144
Other operating expenses		(106)	(102)	(80)	(85)
Impairment of investments in subsidiaries	14	-	(3)	-	(3,000)
Credit loss allowance	22	(379)	(426)	(3,115)	(603)
Payroll expenses	7	(4,638)	(4,381)	(5,650)	(5,324)
Depreciation/amortisation and impairment of property, plant and equipment and intangible assets:	7	(374)	(353)	(366)	(337)
Administrative expenses	7	(3,247)	(3,145)	(3,700)	(3,472)
Finance costs	11	(10)	(10)	(12)	(5)
Profit (loss) before tax		2,266	2,332	(3,720)	(4,235)
Income tax expense	8	(460)	(460)	139	140
Profit (loss) for the year		1,806	1,872	(3,581)	(4,095)
Other comprehensive income		-	-	-	-
Total other comprehensive income, net of tax		1,806	1,872	(3,581)	(4,095)

The accompanying notes are an integral part of these consolidated financial statements.

Head of Administration		2024.04.30
Renato La Fianza	*(signature)*	*(date)*
Chief Financial Officer		2024.04.30
Simonas Skaržauskas	*(signature)*	*(date)*

Group's and Bank's statement of change in equity

for the year ended 31 December 2023

Group

EUR thousand	Issued capital EUR	Retained earnings (loss) EUR	Total equity EUR
As at 01 January 2022	**36,425**	**(2,651)**	**33,774**
Adjustment due to significant errors	-	(585)	(585)
As at 01 January 2022 Corrected	**36,425**	**(3,236)**	**33,189**
Profit (loss) for the year	-	(3,581)	(3,581)
Profit (loss) not recognized in statement of profit and loss and other comprehensive income	-	(120)	(120)
As at 31 December 2022	**36,425**	**(6,939)**	**29,486**
Profit (loss) for the year	-	1,806	1,806
As at 31 December 2023	**36,425**	**(5,134)**	**31,291**

Bank

EUR thousand	Issued capital EUR	Retained earnings (loss) EUR	Total equity EUR
As at 01 January 2022	**36,425**	**(2,156)**	**34,269**
Adjustment due to significant errors	-	(585)	(585)
As at 01 January 2022 Restated	**36,425**	**(2,741)**	**33,684**
Profit (loss) for the year	-	(4,095)	(4,095)
Profit (loss) not recognized in statement of profit and loss and other comprehensive income	-	(120)	(120)
As at 31 December 2022	**36,425**	**(6,956)**	**29,469**
Profit (loss) for the year	-	1,872	1,872
As at 31 December 2023	**36,425**	**(5,083)**	**31,341**

The accompanying notes are an integral part of these consolidated financial statements.

Head of Administration *Renato La Fianza*	*(signature)*	2024.04.30 *(date)*
Chief Financial Officer *Simonas Skaržauskas*	*(signature)*	2024.04.30 *(date)*

PayRay Bank, UAB
Bank code: 304862948, Lvivo st. 25-702, Vilnius, Lithuania

Group's and Bank's statements of cash flows

for the year ended 31 December 2023

EUR thousand	Notes	As at 31 December 2023		As at 31 December 2022 CORRECTED	
		Group	Bank	Group	Bank
Profit (loss) for the year	8	**1,806**	**1,872**	**(3,581)**	**(4,095)**
Operating activities					
Credit loss allowance	22	375	421	3,116	603
Interest income	6	(16,379)	(15,956)	(12,119)	(11,431)
Interest expenses	6	5,694	5,694	3,091	3,091
Depreciation of property, plant and equipment and amortization of intangible assets	9,10,11	373	352	329	318
Impairment of investments in shares of subsidiaries	14	-	3	-	3,000
Change in deferred tax	8	294	294	(140)	(140)
Other non-cash transactions elimination	12	111	116	(2,020)	279
Total adjustments to operating activities		**(9,531)**	**(9,076)**	**(7,744)**	**(4,280)**
Working capital adjustments					
Net change in loans granted	12	34,744	34,512	(63,804)	(64,344)
Change in trade and other receivables	15	(286)	(294)	(429)	(363)
Changes in other assets	16	(101)	(175)	(35)	(191)
Changes in income tax payable	8	166	166	-	-
Changes in customer deposits	19	(65,115)	(65,115)	98,914	98,914
Change in payables	20	584	594	1,736	1,712
Changes in other liabilities	20	(138)	(43)	283	231
Total changes in assets and liabilities of operating activities		**(30,146)**	**(30,354)**	**36,665**	**35,959**
Interest received		15,816	15,501	11,664	10,882
Interest paid		(3,750)	(3,750)	(1,650)	(1,650)
Net cash flows from operating activities		**(25,806)**	**(25,807)**	**35,355**	**36,816**
Investing activities					
Investments in subsidiaries	14	-	-	-	(1,000)
Acquisition of securities issued by governments	13	(14,553)	(14,553)	(22,733)	(22,734)
Acquisition of property, plant and equipment	9, 11	(153)	(153)	(501)	(491)
Acquisition of intangible assets	10	-	-	(773)	(773)
Net cash flows used in investing activities		**(14,706)**	**(14,706)**	**(24,007)**	**(24,997)**
Financing activities					
Lease payments	11	2	2	(24)	71
Net cash flows from/used in financing activities		**2**	**2**	**(24)**	**71**
Increase (decrease) of cash and cash equivalents		(40,510)	(40,511)	11,324	11,890
Cash and cash equivalents at the beginning of the year/period	17	**66,415**	**66,413**	**55,091**	**54,523**
Cash and cash equivalents as at 31 December	17	**25,905**	**25,902**	**66,415**	**66,413**

The accompanying notes are an integral part of these consolidated financial statements.

Head of Administration		2024.04.30
Renato La Fianza	*(signature)*	*(date)*
Chief Financial Officer		2024.04.30
Simonas Skaržauskas	*(signature)*	*(date)*

1. General information

PayRay Bank, UAB (hereinafter – "the Bank"), code 304862948, is a private limited liability company registered in Lithuania. On 18 September 2019, Vilnius factoring company, UAB name was changed to PayRay Bank, UAB. The Company was registered as Vilnius factoring company, UAB, on 25 June 2018. The registered office is located at Lvivo st. 25-702, Vilnius, Lithuania.

On 3 December 2019, the European Central Bank together with the Bank of Lithuania granted to the Bank a banking license granting a right to collect deposits and other repayable funds from non-professional market participants. PayRay Bank, UAB converted to a bank on 15 October 2020. The Bank's main activity is the provision of financing services to small and medium-sized enterprises. The Bank raises the funds it needs to operate its business by collecting deposits from natural and legal persons.

PayRay Bank, UAB Group is made up of the Bank and its subsidiaries (hereinafter "the Group"). As at 31 December 2023, the Bank had the following directly controlled subsidiaries:

- PayRay SIA (main activities: factoring, provision of loans and lease to small and medium-sized enterprises).
- PayRay Estonia OU (commercially inactive).

As at 31 December 2023 and 2022, the shareholder of the Bank was 2404 S.A., Bank code B224715, registered at 76, Grand Rue, L – 1660 Luxembourg, Luxembourg. The shareholder holds 100% of shares in the Bank. The Bank has shares of one class held by one shareholder, 2404 S.A. Ultimate controlling persons are individuals holding 50% of shares each.

In 2020, the Bank established a company PayRay SIA. The Bank became the parent company of PayRay SIA owning 100% of the share capital of PayRay SIA. PayRay SIA is the Bank's subsidiary. The parent company's financial statements are prepared in accordance with the Group's accounting policy and IFRS. Financial data of PayRay SIA is included in the consolidated financial statements prepared by the Group.

In 2021, the Bank established a company PayRay Estonia OU. The Bank became the parent company of PayRay Estonia OU owning 100% of the share capital of PayRay Estonia OU. PayRay Estonia OU is the Bank's subsidiary. The parent company's financial statements are prepared in accordance with the Group's accounting policy and IFRS. Although the company was commercially inactive in 2023, financial data of PayRay Estonia OU is included in the consolidated financial statements prepared by the Group.

On 25 March 2022, the Bank completed the partial acquisition of business from Optima Information Technology Srl. The software development business was purchased as "transfer of going concern" and under the framework of "business combination under common control practice" as both parties had the same sole shareholder.

As at 31 December 2023, the sole shareholder of the Bank was 2404 S.A. holding 100% of shares in the Bank. On 13 September 2022, the Board of the Bank of Lithuania adopted a decision in which the sole shareholder's voting rights were temporarily suspended. As a result of the enforcement measure, the shareholder was unable to approve the Group's and the Bank's financial statements for the year ended 31 December 2022.

As at 31 December 2023, the average number of the Group's employees was 67 (as at 31 December 2022, 98); the Banks – 63 employees (as at 31 December 2022, 89).

The Group's financial reporting year coincides with a calendar year.

The management of the Group and the Bank approved the Group's consolidated financial statements and the Bank's separate financial statements on 30 April 2024.

Basis of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the investee. Subsidiaries are consolidated from the date on which the Group obtains control of these companies. They are deconsolidated from the date that control ceases.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions (that is, as transactions with the owners in their capacity as owners). The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in the Group's equity. Gains or losses on acquisition of non-controlling interest or disposal of shares to non-controlling interest are also recorded in the Group's equity.

Inter-company transactions, balances and unrealised gains on transactions between the Group companies (including subsidiaries classified as held for sale) are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Where necessary, accounting policies of subsidiaries were changed to ensure consistency with the policies adopted by the Bank.

2. Basis of preparation

The financial statements have been prepared in accordance with the requirements of Lithuanian legal acts on accounting and financial reporting and with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Financial statements are presented in euros. All amounts have been rounded to the nearest thousand (EUR thousand), unless otherwise stated. Due to the rounding of individual amounts to thousands of euros, the numbers in the tables may not match specifically, however, such rounding errors are not significant in these financial statements.

3. Significant accounting judgements and estimates

The preparation of the Group's and the Bank's financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The estimates and calculated assumptions are based on historical experience and various other factors that are reasonable under the current circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised or in any future periods affected.

Significant judgements and estimates that, in the management's opinion, have the most significant effect on the financial statements were made in these areas:

- Impairment of financial assets due to credit risk (section "Financial Assets"). Significant management judgements were made in assessing the significant increase in credit risk since initial recognition and in incorporating forward-looking information into the ECL estimate. In 2023, the Group also made fundamental changes to the methodology for estimating expected credit losses, taking into account the existing collateral of the financial instrument, clearly defined estimates of recovery rates for types of collateral, and changing the probability of loss from probability of bankruptcy to probability of default. The value of collateral relative to the financial asset used to calculate expected credit losses was also adjusted to take into account the assessment of forward-looking information, i.e. forecast market expectations and potential price adjustments in the market.
- *Accounting policies of factoring transactions* (section "Financial Assets"). In 2023, the Group made changes to the accounting policy of factoring transactions to provide more accurate and up-to-date information about factoring transactions in the financial statements. In 2022, the Group accounted for factoring transactions by disclosing the value of receivables acquired under assets and the value of prepayments to customers under liabilities. Following a change in the accounting policy of factoring transactions in 2023, the Group accounted for factoring transactions under assets by disclosing the difference between the value of the receivables acquired and the value of prepayments to customers (i.e. the value financed).
- *Intangible assets* (section "Intangible assets"). To remedy the deficiencies indicated in the decision of the Board of the Bank of Lithuania of 15 January 2024, the Group adjusted the definition and recognition criteria for intangible assets, as required by International Accounting Standard (IAS) 38. In 2023, the Group carried out a review of intangible assets and determined that some of the Group's intangible assets did not meet the definition or recognition criteria for intangible assets. As the intangible assets were not recognised in accordance with IAS 38, the Group considered this as an error and made adjustments in accordance with IAS 8 in the reporting periods in which the errors occurred. The Group estimated the negative impact on the financial performance for 2022 and prior

periods to be EUR 1,226 thousand and, as a result, the balance of the Group's equity and intangible assets at the end of 2022 was also lower by EUR 1,226 thousand (Note 22).

- *Going concern* (section "Going concern"). The Group's and the Bank's financial statements were prepared on a going concern basis. As at the date of approval of the financial statements, there were no indications that the Group and the Bank will not be able to continue as going concern, and the Group's and the Bank's activities are not restricted. However, the financial statements of a group company PayRay SIA, whose financial data are included in the Group's consolidated financial statements, have been prepared under the assumption that the company's operations will be discontinued in 2024. The Group's management decided to transfer the financing portfolio to the Bank. The existing customers of PayRay SIA will continue to be serviced by the Bank, thereby continuing the financing activities in Latvia, but optimising the Group's operating costs.
- *The Group's activities under the incentive financial instrument of Žemės Ūkio Paskolų Garantijos Fondas to secure the liquidity during the period of the outbreak of COVID-19.* The Group's management estimates that the Group acts as a financial intermediary channelling funds from Žemės Ūkio Paskolų Garantijos Fondas under the incentive financial instrument "Loans to Secure the Liquidity of Undertakings Active in the Production, Processing and Marketing of Agricultural and Fishery Products during the Period of the Outbreak of COVID-19". The basis for such management estimate is the agreement with Žemės Ūkio Paskolų Garantijos Fondas, which defines the Group as a financial intermediary that lends funds received from Žemės Ūkio Paskolų Garantijos Fondas without taking final decisions on the granting of funds to borrowers, therefore the Group does incur any financial or non-financial liability for defaulting borrowers. As the Group acts as a financial intermediary when granting loans under the said incentive financial instrument, the funds received by borrowers from the Fund and loans repayable by borrowers under the instrument are not recorded in the Group's accounts and disclosed in the Group's financial statements, under assets or liabilities. In 2023, the consolidation of national promotional institutions was completed with the merger of Investment and Business Guarantees UAB (INVEGA) with the Public Investment Development Agency (VIPA), the State Investment Management Agency (SIDA) and the Agricultural Credit Guarantee Fund (ACGF). Therefore, the Group's partner in respect of these loans is not ACGF, but INVEGA.
- *Group's activities under the incentive financial instrument of Žemės Ūkio Paskolų Garantijos Fondas to secure the liquidity during the period of Russian military aggression against Ukraine* The management estimates that the Group acts as a financial intermediary channelling funds from Žemės Ūkio Paskolų Garantijos Fondas under the incentive financial instrument "Loans to Secure the Liquidity of Undertakings Active in the Production, Processing and Marketing of Agricultural and Fishery Products in Response to Russian aggression against Ukraine". The basis for such management estimate is the agreement with Žemės Ūkio Paskolų Garantijos Fondas, which defines the Group as a financial intermediary that lends funds received from Žemės Ūkio Paskolų Garantijos Fondas without taking final decisions on the granting of funds to borrowers, therefore the Group does incur any financial or non-financial liability for defaulting borrowers. As the Group acts as a financial intermediary when granting loans under the said incentive financial instrument, the funds received by borrowers from the Fund and loans repayable by borrowers under the instrument are not recorded in the Group's accounts and disclosed in the Group's financial statements, under assets or liabilities. In 2023, the consolidation of national promotional institutions was completed with the merger of Investment and Business Guarantees UAB (INVEGA) with the Public Investment Development Agency (VIPA), the State Investment Management Agency (SIDA) and the Agricultural Credit Guarantee Fund (ACGF). Therefore, the Group's partner in respect of these loans is not ACGF, but INVEGA.

4. Summary of Material Accounting Policies

In the process of handling its accounting records and preparing financial statements, the Group follows general accounting principles:

- *Group's principle.* In accordance with this principle, the Group shall be considered as a separate unit of accounting and the Group's financial statements shall reflect only its assets, equity and liabilities.
- *Principle of going concern.* Financial statements shall be prepared based on the assumption that the Group will continue its operations indefinitely and is not going to be liquidated or its operations shall not be suspended.
- *Principle of consistency.* In order to ensure that the data of the financial statements for one period can be compared with data from other periods, the accounting rules and methods should remain unchanged for a sufficiently long period. If certain accounting policies are changed during or after a

reporting period, (i) comparative information about financial results that would have been achieved with previous accounting policies, and (ii) information on current financial results must be provided in the explanatory notes to the financial statements.
- *Principle of accrual.* Economic transactions and other events of the Group shall be recorded in accounting when they occur and shall be presented in financial statements of such periods, irrespective of the receipt or payment of cash. Financial statements drafted applying the accrual principle shall inform their users not only about the past events but also about obligations to pay or receive cash in the future.
- *Principle of periodicity.* The accounting activities of the Group are divided into financial years or other reporting periods and the financial statements are prepared for that reporting period. Financial statements of the Group shall be prepared on the basis of data as at the last day of the reporting period.
- *Principle of prudence.* A conservative approach to decisions or transactions should be adopted, which implies prudent assessment of the outcome of the decisions and transactions, and ensures that revenues or assets are not overestimated and costs or liabilities are not underestimated.
- *Principle of comparability.* Revenue earned during the reporting period shall be related to the expenses incurred to earn such revenue. Costs incurred in respect of different periods shall be allocated to the periods during which the Group will earn the respective revenue. The accounting policies selected by the Group shall provide for the application of new methods of accounting without violating the principle of comparability of financial statements. All financial statements shall provide disclosures covering the current reporting year and at least one previous financial year (comparative information).
- *Principle of neutrality.* The accounting information of the Group shall be presented impartially. Presentation of accounting information should not affect the decisions taken by users of accounting information and should not result in predetermined outcome.
- *Principle of substance over form.* In recording transactions and other events of the Group, the economic substance should take precedence over formal requirements or legal form.

The principal accounting policies applied in the preparation of the Group's financial statements for 2023 are set out below.

Financial assets

Financial asset is any asset that is cash and cash equivalents, a contractual right to receive cash or another financial asset, and equity instruments of another companies.

- *Cash and cash equivalents.* Cash comprise cash on hand, cash balances held with the Bank of Lithuania and commercial banks, which can be used to finance the Group's day-to-day operations. Cash equivalents comprise money market instruments with original maturities of three months or less.
- *A contractual right to receive cash or another financial asset.* Contractual rights are represented by loans to customers (including Lease), factoring receivables (recourse, limited recourse, non-recourse), securities issued by governments and accrued interest thereon.
- *Equity instruments of other entities.* Equity instruments comprise investments into subsidiaries.

<u>Recognition and initial measurement</u>

The Group recognises loans to customers (including Lease), factoring receivables and prepayments at the grant date. Under this basis, financial assets are recorded when the Group receives cash or other financial assets or obtains a contractual right to receive cash or any other financial assets. The Group recognises a financial asset in its statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument, except for financial assets at amortised cost which is recognised at settlement date.

<u>Classification</u>

The management decides on the initial classification of the financial assets at the time of initial recognition. The Group's financial asset can be classified as measured at:

- Amortised cost
- fair value through other comprehensive income (FVOCI);
- fair value through profit or loss (FVTPL).

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the financial asset.

The business model reflects how the Bank and the Group manage the financial asset portfolios. Factors considered in determining the business model for a portfolio of financial assets include the evaluation and reporting of the financial asset's performance to management, the assessment and management of risk, compensation models, and the frequency, volume, purpose and timing of sales.

The Group assesses the contractual terms of the financial asset to determine whether the contractual cash flows are solely payments of principal and interest (SPPI). This assessment takes into account whether contractual cash flows are consistent with a basic lending agreement. The principal loan amount is the fair value of the financial asset at initial recognition. Interest consists of consideration for the time value of money, for the credit risk, for other basic lending risks, as well as a profit margin. Where the risk or variability specified in contractual terms are not consistent with a basic lending agreement, the related financial assets are not considered consisting of solely payments of principal and interest and is measured at fair value.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

All other financial assets are designated as at FVTPL.

The sole objective of the Group's business model is to hold financial assets in order to collect contractual cash flows based on the management's judgement. The Group's business model remained unchanged during 2023.

Loans granted to customers, factoring receivables and securities issued by governments held until maturity are treated as financial assets measured at cost applying the effective interest. Transaction costs directly attributable to the acquisition of a financial asset adjust the value of the financial asset.

Derecognition of financial assets.

The Group derecognises financial assets when the contractual rights to the cash flows from this asset has expired or when the right to receive the agreed cash flows from this financial asset has been transferred during the transaction, i.e. all risks and rewards of ownership of financial assets are transferred. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

If the Group transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it shall recognise either a servicing asset or a servicing liability for that servicing contract.

If a transfer of a financial asset does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. In subsequent periods, the Group shall recognise any income on the transferred asset and any expense incurred on the financial liability.

The Group writes-off financial assets at amortised cost when it has no reasonable expectations of collecting of the loan from the debtor and it is not recoverable through the sale of collateral. A write-off constitutes a derecognition event and includes amounts arising from both a decrease in the gross value of the financial asset and a decrease in the allowance for credit losses.

Impairment of financial assets

The Group recognises loss allowances using the expected credit loss (ECL) model for the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments (incl. factoring agreements);
- cash and cash equivalents.

The Group measures loss allowances for credit losses at an amount equal to lifetime ECL, except for financial Instruments without significant increase in credit risk since initial recognition (Stage 1), for which loss allowances for credit losses is measured as 12-month ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as "Stage 1 financial instruments". The credit risk of Stage 1 financial instruments has not significantly increased since initial recognition and they are not credit-impaired.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument or maximum exposure period. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as "Stage 2 financial instruments". The credit risk of Stage 2 financial instruments has significantly increased since initial recognition, but they are not credit-impaired.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses:

- in case of financial assets it is measured as the present value of all cash shortfalls, i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive;
- in case of undrawn loan commitments it is measured as the present value of the difference between the contractual cash flows that are due to the Group's customer if the commitment is drawn down, and the cash flows that the Group expects to receive, if the commitment is drawn down.

Significant increase in credit risk (SICR)

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

In determining whether a significant increase in credit risk has occurred since initial recognition, the Group assesses the following criteria:

- when liabilities towards the Group are more than 30 days past due;
- when the customer's probability of default increases such that the Client's credit class is upgraded to a higher class (10);
- when the pricing component of the credit risk assessment increases significantly;
- when the customer pledges additional collateral to the Group or agrees to other amendments to the agreement due to a significant increase in the customer's credit risk;
- when the Group decides to exercise enhanced monitoring over the customer;
- when the credit risk of the sector in which the Client operates increases significantly;
- when the likelihood of default by the customer increases significantly;
- when restructuring a loan to a customer in financial difficulty;
- when the customer enters bankruptcy proceedings;
- the Group considers that the customer is unlikely to pay its credit obligations in accordance with Article 178 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (hereinafter "Regulation"); and
- when, due to the borrower's financial difficulties, the terms of the loan are reviewed and relieved.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

Definition of default

The Group considers a customer to be in default when:

- the customer is past due more than 90 days on any material credit obligation to the Group;
- the Group considers that the customer is unlikely to pay its credit obligations in accordance with Article 178 of the Regulation.

In assessing whether a customer is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Probability of default and credit risk classes

The qualitative and quantitative factors are considered in defining probability of default. To determine the Client's probability of default, the Client's financial statements, auditor's reports, management reports, budgets and other information are periodically collected to assess the Client's:

- profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, changes in senior management and shareholders and other historical information;
- data from credit reference agencies and the media;
- actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities;
- insolvency records, including default, delay and various similar criteria related to the debtor's solvency ratios;
- utilisation of the granted limit;
- requests for and granting of forbearance;
- existing and forecast changes in business, financial and economic conditions.

The Group allocates each exposure to a credit risk class based on the exposure at default.

Description	Risk class	PD from	PD to
Flawless	1	0.00%	0.14%
Excellent	2	0.15%	0.30%
Great	3	0.31%	0.62%
Very good	4	0.63%	1.24%
Good	5	1.25%	2.49%
Average risk	6	2.50%	3.74%
Higher than average risk	7	3.75%	4.99%
Increased risk	8	5.00%	7.49%
High risk	9	7.50%	9.99%
Highest risk	10	10.00%	99.99%
In default	11	100.00%	100.00%

Credit risk class is calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk class 1 and 2 is smaller than the difference between credit risk classes 7 and 8.

Each exposure is allocated to a credit risk category on initial recognition based on the information obtained about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk class.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired (referred to as "Stage 3 financial assets"). In the event of a customer default (as defined above), the Group classifies the financial asset as credit impaired (customer's financial asset is moved to Stage 3).

A financial instrument that has been renegotiated as a result of a deterioration in the debtor's financial position is considered to be credit-impaired when non-viable forbearance measures are applied, or when a performing forborne financial instrument is more than 30 days past due, or that was previously classified as a non-viable forborne financial instrument that has recovered and classified as a performing forborne financial instrument.

Incorporation of forward-looking information

The Group incorporates forward-looking information both in assessing whether the credit risk of an exposure has increased significantly since initial recognition (through its impact on the probability of default), and in assessing the realisable value of the collateral in the future based on economic forecasts.

Because of homogeneous nature of Group's loans portfolio, it is reasonable to assume that without undue cost and effort it is practicable to focus on three selected forward-looking macroeconomic indicators when measuring the SICR on a portfolio level. Therefore, on a portfolio level, forecasted changes in Lithuania's and Latvia's gross domestic product (GDP), unemployment and inflation rate are well-balanced indicators that can be used to signal increases in credit risk for all credit exposures in the portfolio. The forecasted changes in GDP and unemployment rate are used to determine the probability of default. The forecasted changes in GDP, unemployment and inflation rate to determine the realisable value of the collateral in the future.

The table below displays the share of impact of forward-looking information on the 12-month probability of default for different categories of the Group's clients:

Client category	Share, %
Lithuanian legal entities and farmers	22.64
Lithuanian legal entities operating in transport sector	31.67
Latvian legal entities and farmers	22.63

Forborne financial assets

Forborne financial assets are financial assets whose contractual terms and conditions have been modified to reflect the customer's current or imminent financial difficulties. The purpose of the forbearance measure is to enable the borrower to make full payments again or to avoid foreclosure, or when this is not considered possible, to maximise the repayment of outstanding loans.

Changes in contractual terms include various forms of concessions such as amortisation suspensions, reductions in interest rates to below market rates, forgiveness of all or part of the loan, or issuance of new loans to pay overdue amounts or to avoid a default. Depending on when the forbearance measures are taken and the severity of the financial difficulties of the borrower, the forborne loan could either be treated as a performing forborne loan or a non-performing forborne loan.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statements of financial position as follows:

- expected credit losses on financial assets carried at amortized cost are recorded in the allowance accounts and form an integral part of the carrying amount of those assets in the statement of financial position. Provisions reduce the total carrying amount of the asset.
- expected credit losses on loan commitments are presented as provisions, i.e., liabilities in the statement of financial position.
- the change in the allowances for ECLs and the change in the provision for ECLs on loan commitments is recognised in the statement of profit or loss and other comprehensive income under "Allowance for expected credit losses".

<u>Change in methodology for assessment of the accounting estimate</u>

The Group carried out a review of its credit risk management framework for 2023 and made the following changes to the assessment of expected credit losses.

Estimating the probability of default

In 2023, the Group introduced an updated method for estimating the probability of default, which assesses the probability that the payment to the Group will be more than 90 days past due. In the past, the Group has used data of the probability of bankruptcy to assess the probability of default. The updated methodology for estimating the probability of default is based on three models for estimating the probability of default of specific financial assets: standard business customers, farmers and special purpose vehicles (mostly real estate financing transactions).

The probability of default methodology provides for a process that takes into account customers' events of defaults with respect to financial institutions (more than 90 days past due), assesses the most recent annual or quarterly financial statements, performs a customer's cash flow analysis by assessing the customer's obligations under the new financing agreement, assesses significant loan repayments after 12 months, evaluates the macro-economic forecasts under two macro-economic scenarios, and other credit risk criteria.

Assessing the recoverable amount of the exposure for the purpose of estimating expected losses

In 2023, the Group added the assessment of the recoverable amount of the exposure as a component that reduces the value of the exposure at default to the methodology for estimating expected credit losses, and therefore the updated methodology no longer uses the LGD (Loss given default) indicator, which estimates the amount of the loss that the Group would incur in the event of a customer's default.

In assessing the recoverable amount of the exposure, the Group considers the cash flows expected from collateral and the historical recoverable cash flows, if the collateral is not realised. In cases where the Group estimates that the cash flows from the collateral will be less than the historical recoverable cash flows, if the collateral is not realised, the Group applies the latter estimate.

The Group uses the following collaterals to determine the recoverable amount of the exposure:

- Residential immovable property
- Non-residential immovable property
- Movable property
- State guarantees
- Security deposits
- Sureties, guarantees of natural and legal persons
- In factoring – financed invoices

For these collaterals, the Group, using expert judgement, makes estimates of the amount of the assets to be recovered, which are reviewed periodically based on the Group's historical data.

Criteria for assessing a significant increase in credit risk

In 2023, the Group updated the criteria for assessing a significant increase in credit risk, which are described in the sub-section "Significant increase in credit risk".

Estimating ECLs for Stage 2 financial assets

In 2023, in estimating the lifetime ECLs for Stage 2 financial assets, the Group calculates and aggregates probability-weighted expected credit losses for different scenarios based on the timing of the event of default. In determining the amount of ECLs for each scenario, the Group assesses the probability of the scenario in terms of the customer's probability of default, the value of the exposure in the event of default and the recoverable amount of the exposure, and discounts ECLs to reflect the effect of time. The expected credit losses for each scenario are weighted by the probability of the scenario occurring, and then aggregated to calculate the total ECLs for the financial asset.

Financial liabilities

Recognition and initial measurement

The Group recognises a financial liability in its statement of financial position when, and only when, it becomes party to the contractual provisions of the instrument. Financial liabilities are recorded when the Group assumes a legal obligation to pay cash or settle other financial assets under an existing contract. Borrowings are recognized on the day of settlement. Forecast transactions, guarantees and warranties issued but not yet enforced shall not be recognised as liabilities of the enterprise until they meet the definition of a financial liability.

Financial liabilities are initially recognised at fair value. When financial liabilities are measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability are recognised in the statement of profit or loss and other comprehensive income. For other financial liabilities, the direct transaction costs are recognised as a reduction in fair value.

Classification

The Group classifies all financial liabilities as subsequently measured at amortised cost, except for:

- financial assets at fair value through profit or loss and other comprehensive income (FVTPL). Such liabilities, including derivatives, are subsequently measured at fair value;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate;
- contingent consideration recognised by an acquirer in a business combination.

As at the reporting date, the Group had no such liabilities.

Financial liabilities that are not designated as financial liabilities at amortised cost shall be classified as financial liabilities at fair value through profit or loss.

Derecognition of financial liability

A financial liability is derecognised by the Group when the obligation specified in the contract is discharged or cancelled or expires.

Property, plant and equipment

The Group recognises property, plant and equipment if the following criteria are met:

- *Control.* The Group controls the item of property, plant and equipment. Control means the power to obtain future economic benefits related to the asset.
- *Future economic benefits.* It is probable that the Group will obtain future economic benefits associated with the asset. This probability is assessed based on factors such as the expected use of the asset, market demand and the Group's ability to generate future cash flows.
- *Reliability of cost estimation.* The cost of the asset can be measured reliably and exceeds the minimum cost of property, plant and equipment set by the Group, i.e. EUR 500. The cost comprises all the costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- *Intention to use.* The assets are intended to be used by the Group for more than one year. If an asset is acquired for future use or development, it is not recognised as an item of property, plant and equipment until it is brought into use.

Property, plant and equipment is measured at cost, less accumulated depreciation and impairment loss. Assets are depreciated on a straight-line basis over their estimated useful lives set by the Group:

Category of assets	Depreciation method	Rate (in years)
Furniture	linear	6
Computers and communication equipment	linear	3
Assets other than listed above	linear	4

Intangible assets

The Group recognises an intangible asset if:

- *The asset is identifiable.* An intangible asset is identifiable when it:
  - is separable, i.e. is capable of being separated or divided from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability (regardless of whether the Group intends to do so); or
  - arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group or from other rights and obligations.
- *The Group controls resources.* Group controls an asset if the Group has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.
- *Group expects future economic benefits from intangible assets.* This may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset.

An asset meets the above definition of an intangible asset recognised if, and only if:

- It is probable that the expected future economic benefits that are attributable to the asset will flow to the Group (probability recognition criterion); and
- The cost of the asset can be measured reliably.

The Group applies the following criteria in recognising intangible assets:

- The Group applies a minimum capitalisation threshold of EUR 500 for the recognition of intangible assets, which means that intangible assets below this threshold must be expensed.
- The Group does not recognise intangible assets arising from Software-as-a-Service contracts.

Subsequent expenditure on intangible assets is recognised as an expense in the period in which it is incurred, unless:

- Such expenditure can be measured reliably;
- Assigned to a specific item; and
- It can be reliably estimated that subsequent expenditure is likely to increase the economic benefits of the asset.

Intangible assets are stated at cost, less accumulated amortization and impairment losses. Assets are amortised on a straight-line basis over their estimated useful lives set by the Group:

Category of assets	Amortization method	Rate (in years)
Computer software	linear	3
Core banking software	linear	5
Acquired rights	linear	3
Other intangible assets	linear	4

Lease

Group is a lessor

Lessor classifies leases as either operating or Leases. In a Lease, a lessor transfers substantially all the risks and rewards incidental to ownership of an asset to a lessee. In an operating lease, a lessor retains risks and rewards incidental to ownership of an asset.

The Group's, as a lessor's, leasing activities consist of Lease, which is recognised in the balance sheet as loans receivable under "Loans to customers and factoring receivables". The carrying amount is equal to the net investment in the lease and is calculated as present value of future lease payments. Lease payments received are recognised partly as interest income in the in the statement of profit or loss and other comprehensive income and partly as instalments on the lease receivable, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

Group as a lessee

Where the Group is a lessee, right-of-use assets and lease liabilities are recognised in the balance sheet for premises and car contracts that are classified as leases. The Group's right-of-use assets are accounted for under "Right-of-use assets" and lease liabilities are accounted for under "Lease liabilities". Depreciation and interest expenses of right-of-use assets relating to lease liabilities are recognised in the statement of profit or loss and other comprehensive income. The Group applies the short-term and low-value lease exemptions. Lease payments are recognised as expenses on a straight-line basis over the lease term and are recorded under "Administrative expenses".

At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. Over time, the liability increases due to accrued interest and decreases due to lease payments. At the commencement date, the right-of-use asset is measured at cost, i.e. the same amount of the initial measurement of the lease liability, plus any other expenses (e.g. lease payments made at or before the commencement date). Subsequently, the right-of-use assets are depreciated over the lease period. The lease payments are discounted using the interest rate implicit in the lease.

After the commencement date, the carrying amount is remeasured to reflect any reassessment or lease modifications. The amount of the remeasurement of the lease liability is recognised as an adjustment to the right-of-use asset. The Group recognises in the statement of profit or loss and other comprehensive income any gain or loss relating to the partial or full termination of the lease.

Income

The Group's income is made up of three main sources:

- *Interest income calculated using effective interest method.* Interest income includes interest and default interest on loans, leasing and factoring contracts, and interest income on deposits with the Bank of Lithuania, commercial banks and interest on government bonds (see section "Financial assets");
- *Commission income*, which include administration charges, contract fees and commitment fees;
- *Other operating income*, which include IT, risk management, financial, HR, legal, marketing and other services to other Group companies, as well as preparation of statements/certificates for third parties, etc.

Interest income on all interest-bearing financial instruments is recognised in the statement of profit or loss and other comprehensive income on an accruals basis using the effective interest rate method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts estimated future cash flows over the expected life of the financial instrument or, if needed shorter period to the gross carrying amount of the financial asset.

Interest income on financial assets is calculated by applying the effective interest rate to the gross carrying amount, with two exceptions. Where financial assets measured at amortised cost have become credit-impaired subsequent to initial recognition (Stage 3 financial assets), interest income is calculated by applying the effective interest rate to the amortised cost, which is the gross carrying amount less credit loss allowance. If such financial assets are no longer credit-impaired, the calculation of interest income reverts back to the gross carrying amount basis. Where financial assets measured at amortised cost are credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost until the financial asset is derecognised from the balance sheet. The credit-adjusted effective interest rate is calculated based on the amortised cost of the financial asset rather than the gross carrying amount, and incorporates the impact of ECL in estimated future cash flows.

The calculation includes transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include additional costs that are directly attributable to the acquisition or issue of the financial asset.

Commission income from transactions in which the Group acts as a financial intermediary and *Other operating income* are recognized in accordance with IFRS 15 "Revenue from contracts with customers". Revenue is recognized when it is probable that the Group will gain economic benefits, and the revenue can be measured reliably. Revenue is considered earned when the following criteria are met:

- *Transfer of control.* The Group has transferred control of the goods or services to the buyer.
- *Determination of transaction price.* The transaction price is determined by considering the variable part of the payment and the time value of money.
- *Collectability.* It is likely that the Group will collect the consideration to which it is entitled in exchange for the goods or services.

When recognizing revenue under contracts with customers, the Group applies the following five-step revenue recognition model:

- *The contract with the client is identified;*
- *The contractual obligations of each party regarding the goods or services to be transferred are identified;*
- *The transaction price is determined for the transferred goods or services;*
- *The transaction price is attributed to the contractual performance obligations for the goods or services to be transferred;*
- *Income is recognized when the contractual obligations regarding the goods or services to be transferred are fulfilled.*

Expenses

Expenses are classified in the following categories:

- interest expense on deposits from natural and legal persons (see section "Financial liabilities");
- deposit commission fee expenses (see section "Financial liabilities");
- administrative expenses, including wages and salaries, IT services, legal services and other expenses;
- depreciation and amortisation charges (see sections "Intangible assets" and "Property, plant and equipment");
- finance expense, including interest expense in accordance with IFRS 16 (see section "Lease").

The Group recognises expenses on an accrual and matching basis in the reporting period in which they are incurred and in which the related revenue is earned, irrespective of the timing of related settlements. Expenses that are not related to income earned during the reporting period, but are expected to generate future economic benefits, are presented in the financial statement as assets. The portion of assets which is intended for earning income in future periods shall be recognised as expenses when the associated income is earned.

Interest expense on financial liabilities at amortized cost are recognized in the statement of profit or loss and other comprehensive income using the effective interest method.

Transactions in foreign currencies

Non-monetary assets and liabilities denominated in foreign currencies are recorded at the official rate published by the European Central Bank at the end of the reporting period. Foreign exchange differences are recognised in the statement of profit or loss and other comprehensive income. All non-monetary assets and liabilities are translated using the exchange rate prevailing at the date of the transaction.

Foreign currency transactions settled during the reporting period are translated into euro at the official exchange rate published by the European Central Bank at the date of the transaction. Foreign exchange differences are recognised in the statement of profit or loss and other comprehensive income for the year.

Employee benefits

Short-term employee benefits are recognised as expenses in the period when employees render the services to the Group. The payments include salaries, social security contributions, bonuses, paid leave, etc.

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

The Group recognises a vacation accrual, which is calculated on an individual basis for each employee as unused days of annual paid leave multiplied by the employee's average daily wage. Unused days of annual paid leave and average wage are calculated in accordance with the legislation applicable to the employment contract.

The Group does not recognise pension accruals in the accounting, because the estimated amount of pension accruals is not significant.

Taxes

The Group's taxes consist of current and deferred tax.

Current tax is the amount of income taxes payable in respect of the taxable profit (tax loss) for a period, using the tax laws and rates that have been enacted at the reporting date and any adjustments of taxes of prior periods. Taxable profit differs from profit recorded in the statement of profit or loss since it does not encompass items of revenue or expenses that are subject to tax or deductible for income tax purposes in the next year and also does not encompass items that are never subject to tax or never deductible for income tax purposes.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised in the tax jurisdiction concerned. Deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available.

Corporate income tax in the Republic of Lithuania

Corporate income tax is calculated in accordance with the requirements of the Law on Corporate Income Tax of the Republic of Lithuania. Tax losses can be carried forward for indefinite time. Such transfer of losses shall be terminated if the Group ceases to carry out the activities that caused such tax losses to emerge, unless the Group ceases its activities because of reasons beyond its control. Only up to 70% of current year's taxable profits can be offset against tax losses carried forward.

Corporate income tax in the Republic of Latvia

Income tax expenses of the reporting period accounted for in the financial statements are determined based on calculations performed in accordance with tax legislation of the Republic of Latvia. Income tax is recognised on profit for distribution when shareholders make a decision on profit distribution. Income tax applicable to profit distributed in part is recognised in the statement of profit or loss and other comprehensive income in the year when calculated. In Latvia, income tax is applicable to net dividends instead of profit. Tax rate is 20% from taxable basis.

Corporate income tax in the Republic of Estonia

Income tax expenses of the reporting period accounted for in the financial statements are determined based on calculations performed in accordance with tax legislation of the Republic of Estonia. Income tax is recognised on profit for distribution when shareholders make a decision on profit distribution. Income tax applicable to profit distributed in part is recognised in the statement of profit or loss and other comprehensive income in the year when calculated. In Latvia, income tax is applicable to net dividends instead of profit. Tax rate is 20% from taxable basis.

The Group applied an exception and did not disclose in the financial statements the information regarding deferred tax asset and liabilities related to Pillar Two income taxes.

Going concern assumption

Management is responsible for assessing the ability of the Group companies and the Group as a whole to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Group's company or to cease operations, or has no realistic alternative but to do so.

When assessing the ability of the Group companies and the Group as a whole to continue as a going concern, the Group's management looks out at least 12 months from the end of the reporting period. In making the assessment, the Group considers at least these factors:

- historical and projected financial results;
- liquidity and solvency situation;
- lending agreements;
- industry and market conditions;
- nature of assets and liabilities;
- availability of funding;
- the management's plans and strategy;
- business continuity plans;
- compliance with laws and regulations;
- effect of significant events;
- support from stakeholders.

<u>Assets held-for-sale</u>

When the Group decides to dispose of an asset (or disposal group) through a sale transaction rather than through continuing use, the asset (or disposal group) is assessed for held-for-sale classification until sold. For a non-current asset to be classified as held for sale, it must meet the following conditions:

- The asset is available for sale in its present condition.
- The sale is highly probable, i.e. within one year. Highly probable means:
  - the management is committed to a plan to sell;
  - an active program to locate a buyer and complete the plan to sell has been initiated;
  - the asset is being marketed for sale at a price that is reasonable in relation to its current fair value; and
  - actions required to complete the plan indicate that it's unlikely that significant changes will be made or the plan will be withdrawn.

Non-current assets held for sale are stated at the lower of carrying amount or fair value less costs to sell. Fair value is determined by reference to market conditions, recent transactions and other relevant factors. Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

5. Application of new and amended International Financial Reporting Standards

During the reporting period, the Group adopted new standards and amendments to existing standards and their interpretations, which are relevant to the activities and effective for annual periods beginning on or after 1 January 2023.

(a) Standards, their amendments and interpretations effective for annual periods beginning on or after 1 January 2023.

- IFRS 17: Insurance Contracts. The Standard applies to annual reporting periods beginning on or after 1 January 2023. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretional participation contracts. Amendments did not have a significant impact on the Group's and the Bank's financial statements.
- IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments). The amendment applies to annual reporting periods beginning on or after 1 January 2023. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Group ad the Bank considered amendments in making accounting policy disclosures.
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments) The amendments become effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. Amendments did not have a significant impact on the Group's and the Bank's financial statements.
- IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments) Amendments did not have a significant impact on the Group's and the Bank's financial statements.
- IAS 12 Income tax: International Tax Reform – Pillar Two Model Rules (Amendments). Article 50 of the Global Minimum Tax Directive (2022/2523 of 14 December 2022) provides for an exception that Member States in which no more than twelve ultimate parent entities of groups within the scope of this Directive are located may elect not to apply the IIR (Income Inclusion Rule) and the UTPR (Undertaxed

Profit Rule) for six consecutive fiscal years beginning from 31 December 2023. The Ministry of Finance of the Republic of Lithuania has postponed the implementation of the Pillar Two Model Rules for 6 years under an exception. Amendments did not have a significant impact on the Group's and the Bank's financial statements.

These amendments are effective in European Union for annual reporting periods beginning on or after 1 January 2023.

(b) Standards issued but not yet effective and not early adopted and their amendments

The standards/amendments that are not yet effective and they have not yet been endorsed by the European Union:

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments) The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The management assessed that these amendments will not have significant impact on the Group's and the Bank's financial statements.

- IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments). The amendment applies to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. The management assessed that these amendments will not have significant impact on the Group's and the Bank's financial statements.

The standards/amendments that are not yet effective, but they have been endorsed by the European Union

- IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure – Supplier Finance Arrangements (Amendments) The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted. The management assessed that these amendments will not have significant impact on the Group's and the Bank's financial statements.

- IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments). The amendment applies to annual reporting periods beginning on or after 1 January 2025. Earlier application is permitted. The management assessed that these amendments will not have significant impact on the Group's and the Bank's financial statements.

- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

6. Interest income and expenses, commission income and expenses and other operating income and expenses

EUR thousand	2023 Group	2023 Bank	2022 Group	2022 Bank
Income:				
Interest income calculated using effective interest method	**16,379**	**15,956**	**12,119**	**11,432**
Loan interest income	*10,476*	*10,127*	*7,856*	*7,365*
Factoring interest Income	*2,975*	*2,969*	*2,430*	*2,376*
Lease interest income	*1,873*	*1,815*	*681*	*639*
Securities interest income	*374*	*374*	*118*	*118*
Deposit interest income	*141*	*141*	*18*	*18*
<u>Effective interest rate amendment:</u>				
Contract fee income	*446*	*436*	*917*	*827*
Commission income	*94*	*94*	*99*	*89*
Interest expenses	**(5,694)**	**(5,694)**	**(3,091)**	**(3,091)**
Interest expense on customer deposits	*(4,433)*	*(4,433)*	*(2,144)*	*(2,144)*
<u>Effective interest rate amendment:</u>				
Transactions cost in customer deposits collection platform	*(707)*	*(707)*	*(586)*	*(586)*
Interest expense on guarantees on the financing portfolio	*(554)*	*(554)*	*(361)*	*(361)*
Total income	10,685	10,262	9,028	8,341

EUR thousand	2023 Group	2023 Bank	2022 Group	2022 Bank
Commission income and expense:				
Commission income	**303**	**260**	**150**	**148**
Default interest income	*274*	*231*	*108*	*108*
Other commission income	*29*	*29*	*42*	*40*
Commission expenses	(10)	(10)	(51)	(41)
Total commission income and expense	293	250	99	107

EUR thousand	2023 Group	2023 Bank	2022 Group	2022 Bank
Other operating income and expenses:				
Other operating income	**42**	**240**	**76**	**144**
Certificate preparation, debt collection and other income	*36*	*24*	*76*	*7*
Income from related parties	-	*210*	-	*137*
Gain on disposal of non-current assets	*6*	*6*	-	*0*
Other operating expenses	**(106)**	**(102)**	**(80)**	**(85)**
Factoring insurance for receivables	*(106)*	*(102)*	*(80)*	*(85)*
Total operating income and expense	(64)	138	(4)	59

7. Personnel expenses, depreciation of property, plant and equipment and amortisation of intangible asset and administrative expenses

EUR thousand	2023		2022	
	Group	Bank	Group	Bank
Wages and salaries:				
Non-corrected data for 2022:				
Payroll expenses	4,087	3,896	4,644	4,402
Social security contributions	291	240	354	295
Vacation accruals	86	71	122	122
Payments to members of the Supervisory Board	173	173	174	148
Total personnel expenses	**4,638**	**4,381**	**5,295**	**4,968**
Corrected data for 2022:				
Payroll expenses	4,087	3,896	5,000	4,758
Social security contributions	291	240	354	295
Vacation accruals	86	71	174	148
Remuneration to members of the Supervisory Board	173	173	122	122
Total personnel expenses	**4,638**	**4,381**	**5,650**	**5,324**

In 2022, wage and salary expenses were adjusted due to adjustments to intangible assets (see below) and an identified error in the accounting for accrued wages and salaries. The revised recognition criteria for intangible assets resulted in a EUR 540 thousand increase in wage and salary expenses in 2022. The identification of an error in prior periods resulted in a EUR 185 thousand decrease of in wage and salary expenses. The overall effect on wage and salary expenses was EUR 356 thousand. More detailed information on the adjustments to wage and salary expenses provided in Note 24.

EUR thousand	2023		2022	
	Group	Bank	Group	Bank
Depreciation/amortisation and impairment of property, plant and equipment and intangible assets:				
Non-corrected data for 2022:				
Depreciation of property, plant and equipment	137	97	74	64
Depreciation of right-of-use assets	144	144	97	97
Amortization of intangible assets	112	112	455	455
Impairment of property, plant and equipment (-)	(19)	0	19	0
Total depreciation of property, plant and equipment and amortization of intangible assets	**374**	**353**	**645**	**616**
Corrected data for 2022:				
Depreciation of property, plant and equipment	137	97	74	64
Depreciation of right-of-use assets	144	144	149	149
Amortization of intangible assets	112	112	124	124
Impairment of property, plant and equipment (-)	(19)	0	19	0
Total depreciation of property, plant and equipment and amortization of intangible assets	**374**	**353**	**366**	**337**

To remedy the deficiencies indicated in the decision of the Board of the Bank of Lithuania of 15 January 2024, the Group adjusted the definition and recognition criteria for intangible assets in accordance with IAS 38. As a result, the Group carried out a review of intangible assets as at 31 December 2023 and determined that some of the Group's intangible assets did not meet the said definition or recognition criteria. Only the Group's product management software (PASS) acquired from Optima Information Technology Srl was found to meet the definition and recognition criteria. As the assessment identified that the Group's other intangible assets had not been recognised in accordance with IAS 38, the Group corrected the identified errors in accordance with IAS 8 in the periods in which they occurred. The corrections resulted in a decrease in the amortisation expense of the Group's intangible assets in 2022 (due to the lower value of intangible assets recognised in the accounts). Following corrections, amortisation of the Group's and the Bank's intangible assets decreased by EUR 279 thousand in 2022. More detailed information on the corrections of intangible assets provided in notes 10 and 24.

EUR thousand	2023		2022	
	Group	Bank	Group	Bank
Administrative expenses:				
Non-corrected data for 2022:				
Information technology expenses	1,272	1,272	1,306	1,306
Non-deductible VAT	425	381	614	598
Consultation, professional service expenses	392	331	254	206
Deposit insurance	195	195	157	157
Legal services	163	156	305	288
Employee and office insurance expenses	104	101	54	51
Default interest, contract termination charges	74	72	0	(6)
Car operating expenses	52	52	56	56
Utilities	51	51	75	69
Bank charges	49	49	140	136
Expenses of write-off of non-current assets	49	49	0	0
Training and business trip expenses	47	47	88	86
Regulation, association membership expenses	47	45	50	46
Telecommunication expenses	46	45	44	41
Audit expenses	40	32	63	34
Marketing and representation expenses	18	18	100	100
Other expenses	222	249	450	360
Total administrative expenses	**3,247**	**3,145**	**3,756**	**3,528**
Corrected data for 2022:				
Information technology expenses	1,272	1,272	1,643	1,643
Non-deductible VAT	425	381	248	233
Consultation, professional service expenses	392	331	254	206
Deposit insurance	195	195	157	157
Legal services	163	156	305	288
Employee and office insurance expenses	104	101	54	51
Default interest, contract termination charges	74	72	0	0
Car operating expenses	52	52	56	56
Utilities	51	51	75	69
Bank charges	49	49	140	136
Expenses of write-off of non-current assets	49	49	46	46
Training and business trip expenses	47	47	88	86
Regulation, association membership expenses	47	45	50	46
Telecommunication expenses	46	45	44	41
Audit expenses	40	32	63	34
Marketing and representation expenses	18	18	123	122
Other expenses	222	249	355	259
Total administrative expenses	**3,247**	**3,145**	**3,700**	**3,472**

In 2022, administrative expenses were adjusted for adjustments to intangible assets, VAT and amounts payable related to factoring transactions (see note 24). Overall effect of adjustments is EUR 56 thousand decrease in administrative expenses in 2022.

8. Taxes

EUR thousand	2023		2022	
	Group	Bank	Group	Bank
Income tax expense:				
Current income tax	166	166	0	0
Deferred income tax	294	294	(140)	(140)
Total	**460**	**460**	**(139)**	**(140)**

Reconciliation between tax loss and financial loss for the year ended 31 December is, as follows:

Reconciliation of effective tax rate:

	2023		2022	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Profit (loss) before tax	2,265	2,332	(3,722)	(4,234)
Income tax calculated using the statutory tax rate of 15% (15%/20%)	366	366	(575)	(652)
Income tax calculated using the statutory tax rate applicable for parent companies (0%)	0	0	(77)	0
Tax effect of:				
Non-deductible expenses	140	140	507	506
Non-taxable income	(46)	(46)	(6)	(6)
Total current income tax expenses	**460**	**460**	**(151)**	**(152)**
Adjustment to income tax of the previous year			*12*	*12*
Income tax expenses reported in the statement of profit or loss and other comprehensive income	**460**	**460**	**(139)**	**(140)**

Calculation of income tax is based on requirements of the Lithuanian regulatory legislation on taxation. As of 1 January 2020, an increased income tax rate of 20% applies to banks' taxable profits exceeding EUR 2 million (the standard corporate tax rate in Lithuania is 15%).

The Bank adjusted the calculation of the deferred tax asset for 2022 to reflect prior period adjustments (further described in Note 24). This resulted in an increase of EUR 12 thousand in income tax expense in 2022.

Deferred tax assets and liabilities:

	2023		2022	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Deferred tax assets at the beginning of the period	619	619	480	480
Increase (decrease) in deferred tax assets from tax loss	(294)	(294)	140	140
Total deferred tax assets	**325**	**325**	**619**	**619**

Prior period adjustments (further described in Note 24) resulted in changes in the deferred tax assets of the Bank and the Group. In the Group's and the Bank's financial statements for the year ended 31 December 2022, deferred tax assets from tax losses amounted to EUR 376 thousand at the beginning of 2022, and EUR 528 thousand at the end of 2022. The increase in deferred tax assets is the result of adjustments to prior period financial data which resulted in a higher accumulated tax loss.

In 2023 the Bank earned EUR 2,799 thousand of taxable profit. When calculating the payable income tax in 2023, the taxable income was reduced by 70% by utilising the accumulated tax losses of previous tax periods. Since the Group and the Bank did not pay an advance income tax in 2022 and 2023, at the end of 2023 the Group and the Bank had income tax payable:

	2023		2022	
EUR thousand	**Group**	**Bank**	**Group**	**Bank**
Income tax payable	166	166	-	-
Total income tax payable	**166**	**166**	-	-

9. Property, plant and equipment

Group

EUR thousand	Furniture	Office equipment	Other equipment	Advance payments	Total assets
Acquisition cost:					
Balance as at 01 January 2022	93	44	49	13	199
Increase over the year	42	224	10		275
Write-offs and disposals	(30)	0	-		(30)
Reclassification	0	(44)	-	(13)	(57)
Impairment of property, plant and equipment (-)			(19)		(19)
Balance as at 31 December 2022	105	224	40	0	369
Increase over the year	0	10	0		10
Write-offs and disposals	(32)	0	(59)		(91)
Reclassification			0		-
Impairment of property, plant and equipment (+)			19		19
Balance as at 31 December 2023	73	234	0	0	307
Accumulated depreciation:					
Balance as at 01 January 2021	(25)	-	(7)	-	(32)
Depreciation charge for the year	(22)	(16)	(11)	-	(49)
Depreciation charge for on-balance sheet assets acquired	(1)	-	-	-	(1)
Reclassification	-	-	(2)		(2)
Write-offs and disposals	9	-	-	-	9
Balance as at 31 December 2022	(39)	(16)	(19)	-	(73)
Depreciation charge for the year	(17)	(80)	(21)		(118)
Reclassification	-	-	-		-
Write-offs and disposals	16	-	40		56
Balance as at 31 December 2023	(39)	(95)	0	-	(135)
Net book value as at 01 January 2022	68	44	42	13	168
Net book value as at 31 December 2022	67	208	21	-	296
Net book value as at 31 December 2023	34	138	-	-	172

Bank

EUR thousand	Furniture	Office equipment	Total assets
Acquisition cost:			
Balance as at 01 January 2022	93	44	137
Increase over the year	42	224	265
Write-offs and disposals	(30)	-	(30)
Reclassification	-	(44)	(44)
Balance as at 31 December 2022	105	224	329
Increase over the year	-	10	10
Write-offs and disposals	(32)	-	(32)
Reclassification	-	-	-
Balance as at 31 December 2023	73	234	307
Accumulated depreciation:			
Balance as at 01 January 2021	(25)	-	(25)
Depreciation charge for the year	(22)	(16)	(38)
Depreciation charge for on-balance sheet assets acquired	(1)	-	(1)
Reclassification	-	-	-
Write-offs and disposals	9	-	9
Balance as at 31 December 2022	(39)	(16)	(54)
Depreciation charge for the year	(17)	(80)	(97)
Reclassification	-	-	
Write-offs and disposals	16	-	
Balance as at 31 December 2023	(39)	(95)	(135)
Net book value as at 01 January 2022	68	44	112
Net book value as at 31 December 2022	67	208	275
Net book value as at 31 December 2023	34	138	172

In 2022, after identifying that other equipment will be sold below carrying amount, the Group recognised an impairment loss of EUR 19 thousand on the asset. Impairment of property, plant and equipment was reverses after the sale of assets in 2023.

There were no property, plant and equipment pledged.

There are no fully depreciated property, plant and equipment, which are still in use.

10. Intangible assets

Group

EUR thousand	Computer software	Other assets	Total intangible assets
Non-corrected data for 2022:			
Acquisition cost:			
Balance as at 01 January 2022	724	-	777
Additions	1,007	-	1,007
Write-offs	(63)	-	(63)
Reclassification	44	-	(9)
In progress	673	-	673
Balance as at 31 December 2022	2,385	-	2,385
Accumulated amortisation:			
Balance as at 01 January 2021	(137)	-	(137)
Amortisation charge for the year	(352)	-	(352)
Write-offs	18	-	18
Amortisation charge for on-balance sheet assets acquired	(324)	-	(324)
Balance as at 31 December 2022	(795)	-	(795)
Net book value as at 01 January 2022	587	-	640
Net book value as at 31 December 2022	1,589	-	1,589
Corrected data for 2022:			
Acquisition cost:			
Balance as at 01 January 2022	-	91	91
Additions	773	-	773
Write-offs	-	(91)	(91)
Reclassification	-	-	-
Balance as at 31 December 2022	773	0	773
Additions	-	-	-
Write-offs	(59)	-	(59)
Reclassification	-	-	-
Balance as at 31 December 2023	714	0	714
Accumulated amortisation:			
Balance as at 01 January 2021	-	(8)	(8)
Amortisation charge for the year	(84)	(40)	(124)
Write-offs	-	48	48
Amortisation charge for on-balance sheet assets acquired	(325)	-	(325)
Balance as at 31 December 2022	(409)	0	(409)
Amortisation charge for the year	(112)	-	(112)
Write-offs	26	-	26
Balance as at 31 December 2023	(495)	0	(495)
Net book value as at 01 January 2022	-	83	83
Net book value as at 31 December 2022	364	0	364
Net book value as at 31 December 2023	219	0	219

Bank **EUR thousand**	**Computer software**	**Other assets**	**Total Intangible assets**
Non-corrected data for 2022:			
Acquisition cost:			
Balance as at 01 January 2022	**724**	-	**724**
Additions	1,007	-	1,007
Write-offs	(63)	-	(63)
Reclassification	44	-	44
In progress	673	-	673
Balance as at 31 December 2022	**2,385**	-	**2,385**
Accumulated amortisation:			
Balance as at 01 January 2021	(137)	-	(137)
Amortisation charge for the year	(352)	-	(352)
Write-offs	18	-	18
Amortisation charge for on-balance sheet assets acquired	(324)	-	(324)
Balance as at 31 December 2022	**(795)**	-	**(795)**
Net book value as at 01 January 2022	**587**	-	**587**
Net book value as at 31 December 2022	**1,589**	-	**1,589**
Corrected data for 2022:			
Acquisition cost:			
Balance as at 01 January 2022	-	38	38
Additions	773	-	773
Write-offs	-	(38)	(38)
Reclassification	-	-	-
Balance as at 31 December 2022	**773**	**0**	**773**
Additions	-	-	-
Write-offs	(59)	-	(59)
Reclassification	-	-	-
Balance as at 31 December 2023	**714**	**0**	**714**
Accumulated amortisation:			
Balance as at 01 January 2021	-	(8)	(8)
Amortisation charge for the year	(84)	(40)	(124)
Write-offs	-	48	48
Amortisation charge for on-balance sheet assets acquired	(325)	-	(325)
Balance as at 31 December 2022	**(409)**	**0**	**(409)**
Amortisation charge for the year	(112)	-	(112)
Write-offs	26	-	26
Balance as at 31 December 2023	**(495)**	**0**	**(495)**
Net book value as at 01 January 2022	-	**30**	**30**
Net book value as at 31 December 2022	**364**	**0**	**364**
Net book value as at 31 December 2023	**219**	**0**	**219**

To remedy the deficiencies indicated in the decision of the Board of the Bank of Lithuania of 15 January 2024, the Group adjusted the definition and recognition criteria for intangible assets in accordance with IAS 38. As a result, the Group carried out a review of intangible assets as at 31 December 2023 and determined that some of the Group's intangible assets did not meet the definition or recognition criteria for intangible assets. The Group estimated the negative impact on the financial results for 2022 and prior periods to be EUR 1,225 thousand and, as a result, the balance of the Group's equity and intangible assets at the end of 2022 was lower by EUR 1,225 thousand. Additional information on the adjustment to intangible assets and the effect on prior periods is disclosed in Note 24.

The Group's and the Bank's intangible assets recognised in accounting are the PASS software used to administer factoring and leasing products. The title of to PASS was transferred to the Bank following the acquisition of the software development business of Optima Information Technology Srl. The business acquired in March 2022 included both the PASS software and contracts with a software development team of 13 specialized employees. As at 31 December 2023, the carrying amount of the PASS software was EUR 219 thousand, and the remaining useful life was 27 months.

The Group did not have any intangible assets pledged as at 31 December 2023.

11. Right-of-use assets

The Group has valid office premises, vehicles lease agreements.

Right-of-use assets

Group

EUR thousand	**Office premises**	**Vehicles**	**Total**
Balance as at 01 January 2022	**264**	**77**	**341**
Increase over the year	189	38	226
Depreciation charge for the year	(117)	(38)	(156)
Change due to contract termination	(103)	-	(103)
Net book value as at 31 December 2022	**233**	**76**	**309**
Increase over the year	143	0	143
Depreciation charge for the year	(115)	(28)	(143)
Change due to contract termination	7	(7)	0
Net book value as at 31 December 2023	**267**	**41**	**308**

Bank

EUR thousand	**Office premises**	**Vehicles**	**Total**
Balance as at 01 January 2022	**161**	**77**	**238**
Increase over the year	189	38	226
Depreciation charge for the year	(117)	(38)	(156)
Change due to contract termination			
Net book value as at 31 December 2022	**233**	**76**	**309**
Increase over the year	143	0	143
Depreciation charge for the year	(115)	(28)	(143)
Change due to contract termination	7	(7)	0
Net book value as at 31 December 2023	**267**	**41**	**308**

Lease liabilities

Group

EUR thousand	**Office premises**	**Vehicles**	**Total**
As at 01 January 2022	**256**	79	335
Increase over the year	189	38	226
Payments	(127)	(33)	(159)
Change in right-of-use assets	11	(6)	5
Change due to contract termination	(95)	-	(95)
As at 31 December 2022	**234**	**78**	**311**
Payments	(112)	(27)	(139)
Change due to contract termination	148	(7)	141
As at 31 December 2023	**269**	**44**	**313**

Bank

EUR thousand	Office premises	Vehicles	Total
As at 01 January 2022	**160**	79	**240**
Increase over the year	189	38	226
Payments	(127)	(33)	(159)
Change in right-of-use assets	11	(6)	5
As at 31 December 2022	**234**	**78**	**311**
Payments	(112)	(27)	(139)
Change in right-of-use assets	148	(7)	141
As at 31 December 2023	**269**	**44**	**313**

As at 31 December, interest expense on lease liabilities (finance costs) were as follows:

EUR thousand	2023		2022	
	Group	Bank	Group	Bank
Interest expense on lease liabilities:				
Lease of office premises	(9)	(9)	(11)	(3)
Vehicle lease interest expenses	(1)	(1)	(2)	(2)
Total interest expense on lease liabilities	**(10)**	**(10)**	**(12)**	**(5)**

As at 31 December the future minimum lease payments under operating leases were payable as follows:

EUR thousand	2023		2022	
	Group	Bank	Group	Bank
Within 1 year	106	106	164	164
From 1 to 5 years	207	207	148	148
Total	313	313	311	311

The Group's and the Bank's long-term lease payments include fixed lease payments. Lease payments for office space are indexed annually at the rate specified in the lease agreement. Both office and vehicle leases include extension option. Vehicle leases can be terminated by giving 1 month's notice, lease of office space – 6 months' notice. The Group's management believes that there are no significant risks arising from the residual value of the right-of-use assets at the end of the lease term.

12. Loans to customers and factoring receivables

EUR thousand	2023-12-31		2022-12-31		2022-01-01	
	Group	Bank	Group	Bank	Group	Bank
Loans to customers:						
Loans granted to customers	98,813	95,135	134,736	126,437	83,304	77,968
Accrued interest on loan	584	559	621	558	361	332
Loss allowance for loans granted (-)	(1,510)	(1,176)	(1,452)	(1,085)	(857)	(777)
Loans to related parties	-	2,848	-	9,116	-	5,000
Accrued interest on loans to related parties	-	54	-	201	-	71
Loss allowance for loans to related parties (-)	-	(352)	-	(328)	-	(45)
Lease receivables	18,292	17,951	19,356	18,223	836	836
Accrued interest on lease	97	95	96	94	0	0
Loss allowance for lease (-)	(454)	(434)	(121)	(106)	(2)	(2)
Total	115,135	114,995	153,654	153,528	83,642	83,383
Contract fee income	(314)	(314)	(417)	(417)	(170)	(170)
Total of loans granted to clients	114,821	114,681	153,237	153,111	83,472	83,213
Factoring receivables						
Receivables under factoring agreements	34,118	34,084	30,875	30,754	37,194	36,553
Loss allowance for factoring receivables (-)	(184)	(149)	(79)	(47)	(165)	(133)
Accrued interest income under factoring agreements	449	449	37	37	42	42
Total factoring receivables	34,383	34,383	30,833	30,744	37,072	36,462
Total loans to customers and factoring receivables	**149,204**	**149,064**	**184,070**	**183,854**	**120,543**	**119,674**

Carrying amount of factoring receivables comprise receivables under different factoring agreements. The Group has three types of factoring agreements: recourse, limited recourse and reverse factoring agreements. These amounts are also subject to the impairment requirements of IFRS 9. In 2023, the Group changed accounting policy for factoring transactions. For the purpose of changing accounting policy, the Group retrospectively assessed the effect of changes in accounting policies for factoring transactions as defined in

IAS 8. The Group assessed that the amendment has no impact on financial performance, except for financial position. Given the changes in accounting policy, the factoring receivables financial assets would decrease by EUR 3,065 thousand in 2022 at Group level (EUR 3,026 thousand at Bank level). Table below presents the retrospective application of the updated accounting policies as at 31 December 2022 and 31 December 2021.

2022-12-31	Group		Bank	
EUR thousand	Before changes in accounting policy	After changes in accounting policy	Before changes in accounting policy	After changes in accounting policy
Factoring receivables				
Receivables under factoring agreements	33,940	30,875	33,780	30,754
Loss allowance for factoring receivables (-)	(79)	(79)	(47)	(47)
Accrued interest income under factoring agreements	37	37	37	37
Total factoring receivables	33,898	30,833	33,770	30,744

2022-01-01	Group		Bank	
EUR thousand	Before changes in accounting policy	After changes in accounting policy	Before changes in accounting policy	After changes in accounting policy
Factoring receivables				
Receivables under factoring agreements	40,519	37,194	39,786	36,553
Loss allowance for factoring receivables (-)	(165)	(165)	(133)	(133)
Accrued interest income under factoring agreements	42	42	42	42
Total factoring receivables	40,397	37,072	39,695	36,462

13. Securities issued by governments

	2023-12-31		2022-12-31		2022-01-01	
EUR thousand	Group	Bank	Group	Bank	Group	Bank
Securities issued by governments:						
Securities issued by governments	37,287	37,287	22,733	22,733	-	-
Accrued interest on securities issued by governments	292	292	104	104	-	-
Loss allowance for securities issued by governments	0	0	(47)	(47)	-	-
Total securities issued by governments	37,579	37,579	22,790	22,790	-	-

In 2023, the Group changed accounting policy and the assumptions used in accounting for impairment of financial assets. As a result, the impairment allowance for the government securities held by the Company was 0 as at 31 December 2023. The changes to the measurement of expected credit losses are described in more detail in Notes 4 and 22.

A summary of the government securities held by the Bank and the Group as at 31 December 2023 is presented below.

EUR thousand

ISIN	Buy-out date	Coupon rate	Country	Nominal value
XS1295778275	23/09/2025	1.38%	LV	3,045
XS2168038417	06/05/2025	0.25%	LT	6,953
XS2114767457	10/02/2025	0.00%	PL	4,963
SI0002104246	13/02/2026	0.00%	SI	4,934
LT0000630097	04/08/2025	1.30%	LT	3,012
FI4000560958	13/08/2024	0.00%	FI	3,909
FR0127921312	10/07/2024	0.00%	FR	3,923
DE000BU0E089	21/08/2024	0.00%	DE	6,840
Total				37,579

A summary of the government securities held by the Bank and the Group as at 31 December 2022 is presented below.

EUR thousand

ISIN	Buy-out date	Coupon rate	Country	Nominal value
XS2168038417	06/05/2025	0.25%	LT	6,880
XS2114767457	10/02/2025	0.00%	PL	4,908
SI0002104246	13/02/2026	0.00%	SI	4,883
XS1295778275	23/09/2025	1.38%	LV	3,060
LT0000630097	04/08/2025	1.30%	LT	3,002
Total				22,733

As at 31 December 2021 the Bank and the Group did not have government securities.

14. Investments into subsidiaries

As at 31 December, the Bank's investments consisted of the following:

EUR thousand	2023-12-31	2022-12-31	2022-01-01
Carrying amount of investments			
Investment into PayRay SIA	3,000	3,000	2,000
Impairment of investment into PayRay SIA (-)	(3,000)	(3,000)	0
Investment into PayRay OU	3	3	3
Impairment of investment into PayRay OU (-)	(3)	0	0
Total investments in subsidiaries	0	3	2,003

The Bank's investments into shares of PayRay SIA and PayRay OU:

Investments into subsidiaries	Country	Share of issued capital as at 31 December 2023
PayRay OU	Estonia	100%
PayRay SIA	Latvia	100%

15. Trade and other receivables

	2023-12-31		2022-12-31		2022-01-01	
EUR thousand	Group	Bank	Group	Bank	Group	Bank
Accrual for overpaid VAT	528	528	248	248	21	1
Prepaid temporary solidarity contribution	181	181	-	-	-	-
Security deposit for lease	40	40	40	40	24	24
Other receivables	15	16	189	183	26	86
Total trade and other receivables	764	765	478	472	71	112

16. Other assets

EUR thousand	2023-12-31 Group	2023-12-31 Bank	2022-12-31 Group	2022-12-31 Bank	2022-01-01 Group	2022-01-01 Bank
Other assets:						
Other deferred expenses	180	178	81	78	28	26
Other accrued income	6	216	4	142	-	-
Total other assets	**186**	**394**	**85**	**220**	**28**	**26**

The Group disclosed the VAT payable in the payables (see Note 20) separately from the accrual for overpaid VAT disclosed in the item of other assets, i.e., the Group did not offset payable VAT amount and the accrual for overpaid VAT. Such approach was chosen because the VAT returns to the tax administrator (based on the accrual calculated) were revised in March 2024 and will be submitted to the tax administrator by the end of September 2024. Meanwhile, the Group transferred VAT funds to the tax administrator in January 2024.

17. Cash and cash equivalents

EUR thousand	2023-12-31 Group	2023-12-31 Bank	2022-12-31 Group	2022-12-31 Bank	2022-01-01 Group	2022-01-01 Bank
Balances with the central bank	13,882	13,882	43,741	43,741	48,438	48,438
Balances with commercial banks	11,531	9,031	5,238	2,742	6,657	6,089
3-month term deposit in commercial bank	3,000	3,000	20,000	20,000	-	-
Loss allowance for balances and term deposits in banks (-)	(2,507)	(11)	(2,564)	(70)	(4)	(4)
Total cash and cash equivalents	**25,905**	**25,901**	**66,415**	**66,413**	**55,091**	**54,523**

The cash and cash equivalents of the Group are held with commercial banks that are rated at least Baa1 to Aaa based on Moody's Credit ratings. In 2022, part of the Group's cash (EUR 2,494 thousand) were held with Baltic International Bank which operated in Latvia. In December 2022, the Board of the Financial and Capital Market Commission of the Republic of Latvia suspended the provision of financial services by Baltic International Bank and restricted the use customers' funds held in the bank. As a result, the Group recognised an impairment allowance for the full amount of cash (EUR 2,494 thousand) held with Baltic International Bank.

Funds collected from customers according to INVEGA incentive measures, which will be returned to INVEGA, amounted to EUR 1,196 thousand as at end of 2023 and to EUR 815 thousand as at end of 2022 (see Note 20).

18. Issued capital and retained earnings (loss)

The issued capital of PayRay Bank, UAB as at 31 December 2023 and 2022 consisted of 36,424,791 ordinary registered shares with the par value of EUR 1 each (EUR 36,424,791). All shares issued are fully paid. A share shall not be divided into parts. All shares issued by PayRay Bank, UAB are uncertificated ordinary registered shares.

The issued capital of PayRay, SIA as at 31 December 2023 and 2022 consisted of 3,000,000 ordinary registered shares with the par value of EUR 1 each (EUR 3,000,000). All shares issued are fully paid. A share shall not be divided into parts. All shares issued by PayRay, SIA are uncertificated ordinary registered shares.

The issued capital of PayRay Estonia, OÜ as at 31 December 2023 and 2022 consisted of 2,500 ordinary registered shares with the par value of EUR 1 each (EUR 2,500). All shares issued are fully paid. A share shall not be divided into parts. All shares issued by PayRay Estonia, OÜ are uncertificated ordinary registered shares.

A legal reserve is a compulsory reserve under legislation of the Republic of Lithuania. An annual transfer of 5% of net profit is compulsory until the total of the reserve reaches 10% of the share capital. As at 31 December 2023, the Bank's accrued loss totaled EUR 5,083 thousand (the Bank's – EUR 5,134 thousand), therefore no allocations to the legal reserve were made (2022: the Group's and the Bank's accrued loss tolled EUR 6,939 thousand and EUR 6,956 thousand, respectively).

Below is the draft of the Bank's profit (loss) appropriation project for the financial year ended 31 December 2023:

Name	Amount
(a) Profit (loss) brought forward from the previous reporting period at the end of the current reporting period	**(6,956)**
(b) Net profit (loss) for the reporting year	1,872
(c) Transfers from reserves	-
(d) Owners' contributions to cover the Bank's losses (if shareholders decided to cover total or partial loss)	-
(e) Total distributable profit (loss)	**(5,083)**
(f) Amount of the profit allocated to the legal reserve	-
(g) Amount of the profit allocated to the reserve for the acquisition of own share	-
(h) Amount of the profit allocated to the other reserves	-
(i) Amount of the profit allocated for payment of dividends, of which, where applicable, dividends paid to shareholders during the reporting period for the period shorter than the financial year	-
(j) Amount of profit allocated to annual payments (bonuses) to the members of the Board, bonuses to employees and other purposes	-
(k) Retained earnings (loss) carry forward to the next reporting period	**(5,083)**

19. Customer deposits

EUR thousand	2023-12-31 Group	2023-12-31 Bank	2022-12-31 Group	2022-12-31 Bank	2022-01-01 Group	2022-01-01 Bank
Deposits from natural persons	172,176	172,176	204,401	204,401	118,402	118,402
Germany	*171,546*	*171,546*	*204,401*	*204,401*	118,402	118,402
Spain	*630*	*630*	-	-	-	-
Interest accrued on deposits from natural persons	3,796	3,796	1,747	1,747	372	372
Germany	*3,793*	*3,793*	*1,747*	*1,747*	372	372
Spain	*3*	*3*	-	-	-	-
Deposits from legal persons	2,990	2,990	35,990	35,990	23,000	23,000
Lithuania	*2,990*	*2,990*	*35,990*	*35,990*	23,000	23,000
Interest accrued on deposits from legal persons	32	32	142	142	76	76
Lithuania	*32*	*32*	*142*	*142*	76	76
Total	**178,994**	**178,994**	**242,280**	**242,280**	**141,850**	**141,850**
Deferred commissions on deposits	(249)	(249)	(364)	(364)	(290)	(290)
Total customer deposits	**178,745**	**178,745**	**241,916**	**241,916**	**141,561**	**141,561**

As at 31 December 2023, weighted average annual deposit interest rate was set at 3.10% (1.38% as at 31 December 2022). Insurance coverage is provided for all the deposits from natural persons that are the object of deposit insurance in accordance with the requirements of legal acts and the amount of which does not exceed EUR 100 thousand.

20. Payables and other liabilities

EUR thousand	2023-12-31 Group	2023-12-31 Bank	2022-12-31 Group	2022-12-31 Bank	2022-01-01 Group	2022-01-01 Bank
Payables:						
Factoring payables	464	464	-	-	-	-
Payables to INVEGA	1,196	1,196	815	815	70	70
Other payables	1,446	1,441	602	598	391	386
Security deposits received	324	324	612	612	342	342
Employment-related liabilities	329	329	471	471	236	250
Vacation accruals	318	296	312	288	218	204
Payable to the Ministry of Finance of the Republic of Lithuania	0	0	257	257	-	-
VAT payable	81	80	194	183	175	175
Total payables	**3,853**	**3,826**	**3,263**	**3,224**	**1,433**	**1,427**

EUR thousand	2023-12-31		2022-12-31		2022-01-01	
	Group	Bank	Group	Bank	Group	Bank
Other liabilities:						
Accrued expenses:	**197**	**240**	**360**	**314**	**149**	**149**
Commissions	*123*	*123*	*131*	*131*	-	-
Customer management system	*0*	-	*52*	*52*	-	-
Consultations	*23*	*21*	*49*	*49*	70	70
Lease termination fee	*0*	-	*30*	*0*	-	-
Audit of financial statements	*38*	*32*	*35*	*27*	14	14
Personnel management services	*2*	*2*	*13*	*13*	39	39
Employment relationships	*0*	-	*9*	*0*	-	-
Related party transactions	*0*	*52*	-	-	-	-
Other	*11*	*11*	*41*	*42*	26	26
Deferred income	96	96	66	66	-	-
Other liabilities	0	0	6	0	-	-
Total other liabilities	**293**	**337**	**432**	**380**	**149**	**149**

21. Related party transactions

During the year ended 31 December the following transactions occurred with related parties:

Entities of the same ultimate beneficial owners

EUR thousand	2023		2022	
	Group	Bank	Group	Bank
Purchases of goods and services				
Purchases of goods and services	7	58	151	154
Total	**7**	**58**	**151**	**154**

EUR thousand	2023		2022	
	Group	Bank	Group	Bank
Sales of goods and services				
Sales of goods and services	2	213	-	137
Interest income	-	124	-	131
Total	**2**	**336**	**-**	**268**

The following balances are outstanding at the end of the reporting period in relation to transactions with entities of the same ultimate beneficial owners.

EUR thousand	2023		2022	
	Group	Bank	Group	Bank
Payables and accruals (purchases of goods and services)				
Entities of the same ultimate beneficial owners	-	52	-	3
Total	**-**	**52**	**-**	**3**

EUR thousand	2023		2022	
	Group	Bank	Group	Bank
Receivables and accruals (sale of goods and services)				
Entities of the same ultimate beneficial owners	2	214	10	10
Total	**2**	**214**	**10**	**10**

EUR thousand	2023		2022	
	Group	Bank	Group	Bank
Loans to subsidiaries				
Loans granted	-	2,848	-	9,116
Interest accrued	-	54	-	201
Total	**-**	**2,902**	**-**	**9,318**

Key management personnel

There were no loans granted to the key management personnel during the financial year.

Remuneration to the key personnel of the Group and the Bank. In 2023, there were 18 managers in the Group (2022: 16), and 18 managers in the Bank (2022: 13).

	2023		2022	
EUR thousand	Group	Bank	Group	Bank
Remuneration (incl. bonuses)	1,972	1,972	1,478	1,236
Total	**1,972**	**1,972**	**1,478**	**1,236**

22. Risk management

In its activities, the Group is exposed to the following key risks:

- Credit risk
- Interest rate risk in the banking book
- Liquidity risk
- Operational risk
- Concentration risk
- ESG risk
- Credit spread risk

Risk management framework

The Group uses three lines of defense model for risk management. The Group's management has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group employs Chief Risk Officer, who is responsible for identification, monitoring of risks and implementing risk management policies and practices in the Group.

The Group's risk management framework is designed to identify and analyse the significant risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group's management, through training and governance standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Internal Auditor oversees how management monitors compliance with the Group's risk management framework and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains healthy capital ratios in order to support their business and to maximise the shareholders' value. Capital is managed by complying with legislative requirements and following the activity plans set by the Group's managing bodies. In addition, the level of assumed risks is assessed not only in current situation, but also considering future prospects and the effect of possible adverse factors.

During the reporting period, the Group complied with all prudential ratios, except for the large exposure requirement at the consolidated Financial Group level (PayRay Bank UAB, PayRay SIA, PayRay Estonia OU, 2404 S.A.). The Financial Group's large exposure indicator was 36.13%.

Capital ratios applicable to the Group:

- Common Equity Tier I capital ratio – 8%,
- Tier I capital ratio 11.5% (a capital conservation buffer of +2.5% and countercyclical capital buffer requirement of 1.0% were set above the regulatory minimum capital requirement of 8%),
- Leverage ratio – 3.0%.
- Large exposure requirement – 25% of the Bank's Tier I capital.

Interest rate risk

The key source of interest rate risk at the Group is interest rate risk and repricing risk. The risk arises due to mismatch between the repurchase and repricing terms of assets and liabilities resulting from the change in yield curve or resulting from interest rate options which may have an effect on future cash flows or due to differing reactions of yield curves to changes in interest rates. For the calculation of interest rate risk in the banking book (IRRBB), the Group uses net interest income (NII) sensitivity and sensitivity of economic value of equity (EVE).

In 2023, the Group conducted stress testing of IRRBB by analysing sensitivity of NII and EVE. The impact on the EVE in the Group was assessed against all six standard scenarios referred to in the European Banking Authority (EBA) guidelines.

As at 31 December 2023, the analysis of changes in interest rate risk in the banking book was as follows:

Group

EUR thousand	Overnight	Less than 1 month	1–3 months	3–6 months	6 months – 1 year	Total
Increased interest rates (+ 2pp)	107	419	248	1,018	(528)	1,263
Decreased interest rates (- 2 pp)	(107)	(421)	(248)	(1079)	385	(1470)

Bank

EUR thousand	Overnight	Less than 1 month	1–3 months	3–6 months	6 months – 1 year	Total
Increased interest rates (+ 2pp)	458	349	37	760	(355)	1,249
Decreased interest rates (- 2 pp)	(458)	(349)	(37)	(760)	355	(1,249)

As at 31 December 2022, the analysis of changes in interest rate risk in the banking book was as follows:

Group

EUR thousand	Overnight	Less than 1 month	1–3 months	3–6 months	6 months – 1 year	Total
Increased interest rates (+ 2pp)	1,325	(59)	22	101	(422)	966
Decreased interest rates (- 2 pp)	(1,325)	59	(22)	(101)	422	(966)

Bank

EUR thousand	Overnight	Less than 1 month	1–3 months	3–6 months	6 months – 1 year	Total
Increased interest rates (+ 2pp)	1 325	(53)	105	59	(422)	1,014
Decreased interest rates (- 2 pp)	(1,325)	53	(105)	(59)	422	(1,014)

Credit risk

Credit risk is a risk that the Group will incur financial losses, if a debtor or other counterparty fails to fulfil its liabilities. Credit risk arises principally from the Group's loans, factoring and lease agreements, cash balances in other banks and EU Member State bonds acquired. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure – e.g. the risk of default of an individual debtor and sector risk.

Credit risk management

The Group created the Credit Committee and Debt Management Committee for the oversight of credit risk. Chief Risk Officer (second line), reporting to the management of the Group, is responsible for managing the Group's credit risk, including the following:

- limiting concentrations of exposure to counterparties, industries and by bond issuers;
- developing and maintaining the Group's processes for assessing ECLs. This includes processes for:
  - initial approval, regular validation and back-testing of the models used;
  - determining and monitoring significant increase in credit risk; and
  - incorporation of forward-looking information.

- reviewing compliance of credit portfolio with agreed exposure limits, including those for selected industries and product types. Regular risk reports on the credit quality of Group's portfolios are provided to the Group's management and Supervisory Council. These include reports containing estimates of ECL allowances.
- providing advice, guidance and specialist skills to the Group's employees to promote best practice throughout the Group in the management of credit risk.

Head of Credits (first line) is accountable to the Chief Operating Officer and contributes to risk management, including:

- formulating credit policies covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with any regulatory and statutory requirements;
- establishing the authorisation structure for the approval and renewal of credit facilities. All authorisation limits are allocated to the Credit Committee;
- reviewing and assessing credit risk: Head of Credits assesses all credit exposures before facilities are committed to customers. Renewals and reviews of facilities are subject to the same review process.

Below two tables are provided:

- Table 1 sets out the credit risk classes and the relevant ranges of probability of default applied by the Group up to the end of November 2023.
- In 2023, following comments from the Bank of Lithuania on the definition of the probability of default, at the end of November, the Group implemented an updated methodology for the determination of the credit risk classes and the ranges of probability of default, which the Group has been using since end-November 2023 (Table 2):

Table 1

	Risk grade	PD from	PD to
	A1	0.00%	0.19%
Low risk customers	A2	0.20%	0.29%
	A3	0.30%	0.49%
	B1	0.50%	0.69%
Medium risk customers	B2	0.70%	1.09%
	B3	1.10%	1.69%
	C1	1.70%	2.59%
Increased risk customers	C2	2.60%	3.79%
	C3	3.80%	5.69%
	D1	5.70%	8.39%
High risk customers	D2	8.40%	12.19%
	D3	12.20%	17.39%
	E1	17.40%	24.19%
Customers with default indication	E2	24.20%	32.59%
	E3	32.60%	100.00%

Table 2

	Risk grade	PD from	PD to
Flawless	1	0.00%	0.14%
Excellent	2	0.15%	0.30%
Great	3	0.31%	0.62%
Very good	4	0.63%	1.24%
Good	5	1.25%	2.49%
Average	6	2.50%	3.74%
Moderate	7	3.75%	4.99%
Increased risk	8	5.00%	7.49%
High risk	9	7.50%	9.99%
Highest risk	10	10.00%	99.99%
In default	11	100.00%	100.00%

The terms used in the tables of this Note have the following meanings:

Gross outstanding amount means the final due principal, accrued interest, interest past due, contract fees and commission fees.

Net outstanding amount means gross outstanding reduced by expected credit losses.

Carrying amount means net outstanding amount.

Diversification of credit portfolio as at 31 December 2023 (loans and leasing granted):

Group

EUR thousand	Net outstanding (after the change in accounting estimate)	Net outstanding (after the change in accounting estimate), %	Net outstanding (before the change in accounting estimate)	Net outstanding (before the change in accounting estimate), %
G. Wholesale and retail trade	28,648	24.95%	28,715	25.00%
L. Real estate transactions	26,934	23.46%	26 827	23.36%
C. Manufacturing	12,106	10.54%	12,088	10.52%
A. Agriculture, forestry and fisheries	10,980	9.56%	10,973	9.55%
H. Transport and storage	10,444	9.10%	10,422	9.07%
F. Construction	7,758	6.76%	7,744	6.74%
N. Administrative and support activities	7,660	6.67%	7,879	6.86%
K. Financing and insurance activities	3,306	2.88%	3,222	2.81%
D. Supply of electricity, gas, vapour and air conditioning	2,832	2.47%	2,833	2.47%
M. Professional, scientific and technical activities	1,997	1.74%	2,003	1.74%
J. Information and communication	850	0.74%	849	0.74%
E. Water supply	443	0.39%	444	0.39%
Q. Human health and social work activities	249	0.22%	251	0.22%
S. Other services	223	0.19%	224	0.20%
R. Arts, entertainment and recreation	209	0.17%	207	0.17%
I. Accommodation and food service activities	114	0.10%	114	0.10%
P. Education	68	0.06%	68	0.06%
	114,821	**100.00%**	**114,863**	**100.00%**

Bank

EUR thousand	Net outstanding (after the change in accounting estimate)	Net outstanding (after the change in accounting estimate), %	Net outstanding (before the change in accounting estimate)	Net outstanding (before the change in accounting estimate), %
G. Wholesale and retail trade	28,472	24.83%	28,539	24.87%
L. Real estate transactions	26,934	23.49%	26,827	23.38%
C. Manufacturing	11,858	10.34%	11,838	10.32%
H. Transport and storage	10,404	9.07%	10,382	9.05%
A. Agriculture, forestry and fisheries	9,173	8.00%	9,171	7.99%
F. Construction	7,675	6.69%	7,661	6.68%
N. Administrative and support activities	7,451	6.50%	7,672	6.69%
K. Financing and insurance activities	5,857	5.11%	5,773	5.03%
D. Supply of electricity, gas, vapour and air conditioning	2,705	2.36%	2,706	2.36%
M. Professional, scientific and technical activities	1,997	1.74%	2,003	1.75%
J. Information and communication	850	0.74%	849	0.74%
E. Water supply	443	0.39%	444	0.39%
Q. Human health and social work activities	249	0.22%	251	0.22%
S. Other services	223	0.19%	224	0.20%
R. Arts, entertainment and recreation	208	0.17%	207	0.17%
I. Accommodation and food service activities	114	0.10%	114	0.10%
P. Education	68	0.06%	68	0.06%
	114,681	**100.00%**	**114,729**	**100.00%**

Diversification of credit portfolio as at 31 December 2023 (factoring receivables) was as follows:

Group

EUR thousand	Net outstanding (after the change in accounting estimate)	Net outstanding (after the change in accounting estimate), %	Net outstanding (before the change in accounting estimate)	Net outstanding (before the change in accounting estimate), %
G. Wholesale and retail trade	13,521	39.32%	13,522	39.35%
H. Transport and storage	10,153	29.53%	10,120	29.45%
N. Administrative and support activities	5,692	16.55%	5,708	16.61%
C. Manufacturing	2,663	7.75%	2,663	7.75%
F. Construction	1,728	5.03%	1,728	5.03%
D. Supply of electricity, gas, vapour and air conditioning	444	1.29%	445	1.28%
M. Professional, scientific and technical activities	106	0.31%	106	0.31%
R. Arts, entertainment and recreation	76	0.22%	75	0.22%
	34,383	**100.00%**	**34,367**	**100.00%**

Bank

EUR thousand	Net outstanding (after the change in accounting estimate)	Net outstanding (after the change in accounting estimate), %	Net outstanding (before the change in accounting estimate)	Net outstanding (before the change in accounting estimate), %
G. Wholesale and retail trade	13,521	39.32%	13,522	39.35%
H. Transport and storage	10,153	29.53%	10,120	29.45%
N. Administrative and support activities	5,692	16.55%	5,708	16.61%
C. Manufacturing	2,663	7.75%	2,663	7.75%
F. Construction	1,728	5.03%	1,728	5.03%
D. Supply of electricity, gas, vapour and air conditioning	444	1.29%	445	1.28%
M. Professional, scientific and technical activities	106	0.31%	106	0.31%
R. Arts, entertainment and recreation	76	0.22%	75	0.22%
	34,383	**100.00%**	**34,367**	**100.00%**

Diversification of credit portfolio as at 31 December 2022:

Group

EUR thousand	Net outstanding (after the change in accounting policy)	Net outstanding (after the change in accounting policy), %	Net outstanding (before the change in accounting policy)	Net outstanding (before the change in accounting policy), %
G. Wholesale and retail trade	33,008	21.54%	33,008	21.54%
L. Real estate transactions	29,822	19.46%	29,822	19.46%
C. Manufacturing	16,683	10.89%	16,683	10.89%
F. Construction	16,348	10.67%	16,348	10.67%
A. Agriculture, forestry and fisheries	14,017	9.15%	14,017	9.15%
H. Transport and storage	13,082	8.54%	13,082	8.54%
K. Financing and insurance activities	9,400	6.13%	9,400	6.13%
N. Administrative and support activities	9,406	6.14%	9,406	6.14%
D. Supply of electricity, gas, vapour and air conditioning	3,794	2.48%	3,794	2.48%
J. Information and communication	3,726	2.43%	3,726	2.43%
M. Professional, scientific and technical activities	2,003	1.31%	2,003	1.31%
E. Water supply	693	0.45%	693	0.45%
R. Arts, entertainment and recreation	362	0.23%	362	0.23%
Q. Human health and social work activities	312	0.20%	312	0.20%
S. Other services	299	0.20%	299	0.20%
I. Accommodation and food service activities	129	0.08%	129	0.08%
P. Education	113	0.07%	113	0.07%
B. Mining and quarrying	40	0.03%	40	0.03%
	153,237	**100.00%**	**153,237**	**100.00%**

Bank

EUR thousand	Net outstanding (after the change in accounting policy)	Net outstanding (after the change in accounting policy), %	Net outstanding (before the change in accounting policy)	Net outstanding (before the change in accounting policy), %
G. Wholesale and retail trade	31,236	20.40%	31,236	20.40%
L. Real estate transactions	29,032	18.96%	29,032	18.96%
K. Financing and insurance activities	18,390	12.01%	18,390	12.01%
C. Manufacturing	16,236	10.60%	16,236	10.60%
F. Construction	15,914	10.39%	15,914	10.39%
H. Transport and storage	13,027	8.51%	13,027	8.51%
A. Agriculture, forestry and fisheries	9,273	6.06%	9,273	6.06%
N. Administrative and support activities	8,756	5.72%	8,756	5.72%
J. Information and communication	3,725	2.43%	3,725	2.43%
D. Supply of electricity, gas, vapour and air conditioning	3,611	2.36%	3,611	2.36%
M. Professional, scientific and technical activities	2,003	1.31%	2,003	1.31%
E. Water supply	693	0.45%	693	0.45%
R. Arts, entertainment and recreation	362	0.25%	362	0.25%
Q. Human health and social work activities	312	0.20%	312	0.20%
S. Other services	299	0.20%	299	0.20%
I. Accommodation and food service activities	129	0.08%	129	0.08%
P. Education	113	0.07%	113	0.07%
	153,111	100.00%	153,111	100.00%

Diversification of credit portfolio as at 31 December 2022 (factoring receivables) was as follows:

Group

EUR thousand	Net outstanding (after the change in accounting policy)	Net outstanding (after the change in accounting policy), %	Net outstanding (before the change in accounting policy)	Net outstanding (before the change in accounting policy), %
G. Wholesale and retail trade	16,733	54.27%	18,595	54.86%
H. Transport and storage	5,300	17.19%	5,892	17.38%
N. Administrative and support activities	4,077	13.22%	4,285	12.64%
C. Manufacturing	3,098	10.05%	3,301	9.74%
F. Construction	1,030	3.34%	1,164	3.43%
D. Supply of electricity, gas, vapour and air conditioning	394	1.28%	438	1.29%
M. Professional, scientific and technical activities	201	0.65%	223	0.66%
	30,833	100.00%	33,898	100.00%

Bank

EUR thousand	Net outstanding (after the change in accounting policy)	Net outstanding (after the change in accounting policy), %	Net outstanding (before the change in accounting policy)	Net outstanding (before the change in accounting policy), %
G. Wholesale and retail trade	16,744	54.46%	18,579	55.02%
H. Transport and storage	5,300	17.24%	5,892	17.45%
N. Administrative and support activities	4,077	13.26%	4,285	12.69%
C. Manufacturing	3,062	9.96%	3,261	9.66%
F. Construction	966	3.15%	1,092	3.22%
D. Supply of electricity, gas, vapour and air conditioning	394	1.28%	438	1.30%
M. Professional, scientific and technical activities	201	0.65%	223	0.66%
	30,744	100.00%	33,770	100.00%

Impairment of financial assets

The Group has six types of financial assets that are subject to the expected credit loss model:

- factoring and other receivables, which are subject to all types of factoring agreements;
- loans granted;
- lease agreements;
- bonds (held-to-maturity);
- deposits in other banks;
- cash and cash equivalents.

Maximum credit risk exposure

The following table presents the maximum credit risk exposure before considering any collateral held. The maximum exposure to credit risk equals the maximum amount that would have to be paid upon customer request.

Group

EUR thousand	Maximum credit risk exposure, 2023	Gross outstanding, 2023	Outstanding loan commitment under the loan agreement, 2023	Maximum credit risk exposure 2022	Gross outstanding, 2022	Outstanding loan commitment under the loan agreement, 2022
Balances with the central bank	13,882	13,882	0	43,741	43,741	0
Loans	100,697	98,397	2,300	152,488	135,357	17,131
Lease	18,531	18,388	143	20,566	19,452	1,114
State bonds	37 579	37 579	0	22,837	22,837	0
Demand deposits and balances with commercial banks	12,037	12,037	0	22,730	22,730	0
Total (excl. factoring)	182,726	180,283	2,443	262,362	244,117	18,245
Factoring (after changes in accounting policy)	34,567	34,567	0	30,912	30,912	0
Factoring (before changes in accounting policy)	N/A	N/A	N/A	33,977	33,977	0
Total (after changes in accounting policy)	**217,293**	**214,850**	**2,443**	**293,274**	**275,029**	**18,245**
Total (before changes in accounting policy)	N/A	N/A	N/A	**296,339**	**278,094**	**18,245**

Bank

EUR thousand	Maximum credit risk exposure, 2023	Gross outstanding, 2023	Outstanding loan commitment under the loan agreement, 2023	Maximum credit risk exposure 2022	Gross outstanding, 2022	Outstanding loan commitment under the loan agreement, 2022
Balances with the central bank	13,882	13,882	0	43,741	43,741	0
Loans	101,999	98,597	3,402	155,444	136,313	19,131
Lease	18,189	18,046	143	19,431	18,317	1,114
State bonds	37 579	37 579	0	22,837	22,837	0
Demand deposits and balances with commercial banks	12,031	12,031	0	22,728	22,728	0
Total (excl. factoring)	183,680	180,135	3,545	264,181	243,936	20,245
Factoring (after changes in accounting policy)	34,533	34,533	0	30,791	30,791	0
Factoring (before changes in accounting policy)	N/A	N/A	N/A	33,817	33,817	0
Total (after changes in accounting policy)	**218,213**	**214,668**	**3,545**	**294,972**	**274,727**	**20,245**
Total (before changes in accounting policy)	N/A	N/A	N/A	**297,998**	**277,753**	**20,245**

In its lending activities, the Group aims to reduce its credit risk and expected credit losses. As a measure to mitigate this risk, customers provide the Group with various types of collaterals: real estate, wheeled vehicles, equipment, inventories, receivables, promissory notes, sureties, guarantees, etc. The Group also makes good use of guarantees to lower Group's exposure to credit risk. The guarantees are issued by the European Investment Fund, Investicijų ir verslo garantijos UAB (INVEGA), and Žemės Ūkio Paskolų Garantijų Fondas UAB.

Portfolio as at 31 December by the type of financial asset:

Group

EUR thousand	Net outstanding (after the change in accounting estimate), 2023	Protected with insurance or guarantee* (after the change in accounting estimate), 2023	Net outstanding (before the change in accounting estimate), 2023	Protected with insurance or guarantee* (before the change in accounting estimate), 2023	Net outstanding (after the change in accounting policy), 2022	Protected with insurance or guarantee* (after the change in accounting policy), 2022	Net outstanding (before the change in accounting policy), 2022	Protected with insurance or guarantee* (before the change in accounting policy), 2022
Factoring								
with recourse	17,757	9,744	17,714	9,741	13,223	10,424	14,665	11,504
without recourse	3,799	1,480	3,822	1,481	2,773	249	2,773	249
with limited recourse	12,827	12,827	12,831	12,831	14,837	14,837	16,460	16,460
reverse	0	0	0	0	0	0	0	0
Total factoring	34,383	24,051	34,367	24,053	30,833	25,510	33,898	28,213
Loans	96 887	75,886	96,723	75,863	133,906	105,613	133,906	105,613
Lease	17,934	14,050	18,140	14,274	19,331	17,014	19,331	17,014
Total	149,204	113,987	149,230	114,190	184,070	148,137	187,135	150,840

Bank

EUR thousand	Net outstanding (after the change in accounting estimate), 2023	Protected with insurance or guarantee* (after the change in accounting estimate), 2023	Net outstanding (before the change in accounting estimate), 2023	Protected with insurance or guarantee* (before the change in accounting estimate), 2023	Net outstanding (after the change in accounting policy), 2022	Protected with insurance or guarantee* (after the change in accounting policy), 2022	Net outstanding (before the change in accounting policy), 2022	Protected with insurance or guarantee* (before the change in accounting policy), 2022
Factoring								
with recourse	17,757	9,744	17,714	9,741	13,374	10,434	14,803	11,514
without recourse	3,799	1,480	3,822	1,481	2,772	249	2,772	249
with limited recourse	12,827	12,827	12,831	12,831	14,598	14,598	16,195	16,195
reverse	0	0	0	0	0	0	0	0
Total factoring	34,383	24,051	34,367	24,053	30,744	25,281	33,770	27,958
Loans	97,069	75,413	96,910	75,390	134,900	103,824	134,900	103,824
Lease	17,612	14,024	17,819	14,248	18,211	16,980	18,211	16,980
Total	149,064	113,488	149,096	113,691	183,855	146,085	186,881	148,762

** Insurance providers: Atradius, Euler Hermes or Coface – loan and trade credit insurance; Guarantee providers: INVEGA, Žemės Ūkio Paskolų Garantijų Fondas, the European Investment Fund (EIF), ALTUM.*

As at 31 December, loss allowance was set for receivables and loans granted as follows:

Group

EUR thousand	2023 (after the change in accounting estimate)	2023 (before the change in accounting estimate)	2022 (after changes in accounting policy)	2022 (before changes in accounting policy)
Gross carrying amount – factoring receivables	34,567	34,567	30,912	33,977
Gross carrying amount – loans	98,397	98,397	135,357	135,357
Gross carrying amount – lease	18,388	18,388	19,452	19,452
Gross outstanding debt nominal	151,352	151,352	185,721	188,786
Loss allowance – factoring receivables	(184)	(200)	(79)	(79)
Loss allowance – loans granted	(1,510)	(1,674)	(1,451)	(1,451)
Loss allowance – lease	(454)	(248)	(121)	(121)
Total loss allowance	(2,148)	(2,122)	(1,651)	(1,651)
Total outstanding debt nominal	149,204	149,230	184,070	187,135

Bank

EUR thousand	2023 (after the change in accounting estimate)	2023 (before the change in accounting estimate)	2022 (after changes in accounting policy)	2022 (before changes in accounting policy)
Gross carrying amount – factoring receivables	34,533	34,533	30,791	33,817
Gross carrying amount – loans	98,597	98,597	136,313	136,313
Gross carrying amount – lease	18,046	18,046	18,317	18,317
Gross outstanding debt nominal	151,176	151,176	185,421	188,447
Loss allowance – factoring receivables	(150)	(166)	(47)	(47)
Loss allowance – loans granted	(1,528)	(1,687)	(1,413)	(1,413)
Loss allowance – lease	(434)	(227)	(106)	(106)
Total loss allowance	(2,112)	(2,080)	(1,566)	(1,566)
Total outstanding debt nominal	149,064	149,096	183,855	186,881

As at 31 December 2023, ECLs for factoring and other receivables were set by customers risk level as follows:

Group

EUR thousand	Risk grade	Outstanding, gross	ECL (after the change in accounting estimate)	Net outstanding (after the change in accounting estimate)
Flawless	1	16,543	(2)	16,541
Excellent	2	17,232	(4)	17,228
Great	3	44,190	(26)	44,164
Very good	4	20,369	(27)	20,342
Good	5	9,810	(35)	9,775
Average	6	12,737	(70)	12,667
Moderate	7	5,296	(36)	5,260
Increased risk	8	5,218	(43)	5,175
High risk	9	5,250	(109)	5,141
Highest risk	10	4,180	(211)	3,969
In default	11	10,527	(1,585)	8,942
Total		**151,352**	**(2,148)**	**149,204**

EUR thousand	Risk grade	Outstanding, gross	ECL (before the change in accounting estimate)	Net outstanding (before the change in accounting estimate)
Low risk customers	A1	0	0	0
	A2	18	0	18
	A3	11,426	(9)	11,417
	Total	**11,444**	**(9)**	**11,435**
Medium risk customers	B1	9,080	(8)	9,072
	B2	29,148	(35)	29,113
	B3	26,337	(76)	26,261
	Total	**64,565**	**(119)**	**64,446**
Increased risk customers	C1	35,682	(138)	35,544
	C2	9,243	(70)	9,173
	C3	6,937	(35)	6,902
	Total	**51,862**	**(243)**	**51,619**
High risk customers	D1	10,414	(137)	10,277
	D2	1,205	(15)	1,190
	D3	70	(1)	69
	Total	**11,689**	**(153)**	**11,536**
Customers with default indication	E1	1,254	(18)	1,236
	E2	0	0	0
	E3	10,538	(1,580)	8,958
	Total	**11,792**	**(1,698)**	**10,194**
Total		**151,352**	**(2,122)**	**149,230**

Bank

Customer category	Risk grade	Outstanding, gross	ECL (after the change in accounting estimate)	Net outstanding (after the change in accounting estimate)
Flawless	1	16,543	(2)	16,541
Excellent	2	17,232	(4)	17,228
Great	3	43,894	(26)	43,868
Very good	4	19,861	(26)	19,835
Good	5	9,680	(35)	9,645
Average	6	12,636	(70)	12,566
Moderate	7	5,121	(36)	5,085
Increased risk	8	4,151	(43)	4,108
High risk	9	5,250	(109)	5,141
Highest risk	10	4,180	(212)	3,968
In default	11	12,628	(1,549)	11,079
Total		**151,176**	**(2,112)**	**149,064**

EUR thousand	Risk grade	Outstanding, gross	ECL (before the change in accounting estimate)	Net outstanding (before the change in accounting estimate)
Low risk customers	A1	0	0	0
	A2	18	0	18
	A3	9,998	(7)	9,991
	Total	**10 016**	**(7)**	**10,009**
Medium risk customers	B1	8,861	(8)	8,853
	B2	29,080	(35)	29,045
	B3	26,224	(75)	26,149
	Total	**64,165**	**(118)**	**64,047**
Increased risk customers	C1	35,433	(136)	35,297
	C2	9,070	(68)	9,002
	C3	6,937	(35)	6,902
	Total	**51,440**	**(239)**	**51,201**
High risk customers	D1	10,388	(137)	10,251
	D2	1,205	(15)	1,190
	D3	70	(1)	69
	Total	**11,663**	**(153)**	**11,510**
Customers with default indication	E1	1,254	(18)	1,236
	E2	0	0	0
	E3	12,638	(1,545)	11,093
	Total	**13,892**	**(1,563)**	**12,329**
Total		**151,176**	**(2,080)**	**149,096**

As at 31 December 2022, ECLs for factoring and other receivables were set by customers risk level as follows:

Group

EUR thousand	Risk grade	Outstanding, gross (after the change in accounting policy)	Outstanding, gross (before the change in accounting policy)	Expected credit losses	Net outstanding (after the change in accounting policy)	Net outstanding (before the change in accounting policy)
Low risk customers	A1	54	64	0	54	64
	A2	2,734	2,734	(2)	2,732	2,732
	A3	11,887	12,343	(7)	11,880	12,336
	Total	**14,675**	**15,141**	**(9)**	**14,666**	**15,132**
Medium risk customers	B1	21,086	21,697	(20)	21,066	21,677
	B2	42,175	42,745	(57)	42,118	42,688
	B3	45,652	46,799	(140)	45,512	46,659
	Total	**108,913**	**111,241**	**(217)**	**108,696**	**111,024**
Increased risk customers	C1	14,866	15,106	(68)	14,798	15,038
	C2	5,885	5,885	(51)	5,834	5,834
	C3	32,580	32,580	(366)	32,214	32,214
	Total	**53,331**	**53,571**	**(485)**	**52,846**	**53,086**
High risk customers	D1	5,279	5,279	(92)	5,187	5,187
	D2	945	945	(43)	902	902
	D3	64	68	(5)	59	63
	Total	**6,288**	**6,292**	**(140)**	**6,148**	**6,152**
Customers with default indication	E1	0	0	0	0	0
	E2	0	0	0	0	0
	E3	2,514	2,541	(800)	1,714	1,741
	Total	**2,514**	**2,541**	**(800)**	**1,714**	**1,741**
Total		**185,721**	**188,786**	**(1,651)**	**184,070**	**187,135**

Bank

EUR thousand	Risk grade	Outstanding, gross (after the change in accounting policy)	Outstanding, gross (before the change in accounting policy)	Expected credit losses	Net outstanding (after the change in accounting policy)	Net outstanding (before the change in accounting policy)
Low risk customers	A1	11	21	0	11	21
	A2	286	286	0	286	286
	A3	11,435	11,867	(6)	11,429	11,861
	Total	11,732	12,174	(6)	11,726	12,168
Medium risk customers	B1	19,723	20,329	(17)	19,706	20,312
	B2	41,545	42,112	(55)	41,490	42,057
	B3	45,095	46,241	(138)	44,957	46,103
	Total	106,363	108,682	(210)	106,153	108,472
Increased risk customers	C1	14,410	14,647	(64)	14,346	14,583
	C2	5,444	5,444	(32)	5,412	5,412
	C3	30,377	30,377	(323)	30,054	30,054
	Total	50,231	50,468	(419)	49,812	50,049
High risk customers	D1	5,226	5,226	(90)	5,136	5,136
	D2	945	945	(43)	902	902
	D3	64	68	(5)	59	63
	Total	6,235	6,239	(138)	6,097	6,101
Customers with default indication	E1	0	0	0	0	0
	E2	0	0	0	0	0
	E3	10,860	10,884	(793)	10,067	10,091
	Total	10,860	10,884	(793)	10,067	10,091
Total		185,421	188,447	(1,566)	183,855	186,881

Off-balance sheet commitments

The Group's standard factoring and credit line loan agreements may be at any time and without prior notice unconditionally terminated. Accordingly, expected credit losses are not calculated on unused limit. Lease and other loan agreements require the Group to provide financing; therefore, these agreements are subject to the ECL estimation for undrawn loan commitments.

As at 31 December 2023, expected credit losses for off-balance sheet commitments were set by customers risk level as follows:

Group

Customer category	Risk grade	Gross off-balance sheet commitments	ECL (after the change in accounting estimate)	Net off-balance sheet commitments (after the change in accounting estimate)
Flawless	1	14,683	0	14,683
Excellent	2	7,726	(1)	7,725
Great	3	12,768	0	12,768
Very good	4	6,528	0	6,528
Good	5	7,779	0	7,779
Average	6	3,837	0	3,837
Moderate	7	604	0	604
Increased risk	8	1,027	0	1,027
High risk	9	1,406	0	1,406
Highest risk	10	500	0	500
In default	11	413	0	413
Total		57,271	(1)	57,270

EUR thousand	Risk grade	Gross off-balance sheet commitments	ECL (before the change in accounting estimate)	Net off-balance sheet commitments (before the change in accounting estimate)
Low risk customers	A1	0	0	0
	A2	500	0	500
	A3	7,143	(1)	7,142
	Total	7,643	(1)	7,642
Medium risk customers	B1	6,777	0	6,777
	B2	12,313	0	12,313
	B3	15,117	0	15,117
	Total	34,207	0	34,207
Increased risk customers	C1	8,316	(1)	8,315
	C2	335	0	335
	C3	5,258	0	5,258
	Total	13,909	(1)	13,908
High risk customers	D1	593	(5)	588
	D2	506	0	506
	D3	0	0	0
	Total	1,099	(5)	1,094
Customers with default indication	E1	0	0	0
	E2	0	0	0
	E3	413	0	413
	Total	413	0	413
Total		57,271	(7)	57,264

Bank

Customer category	Risk grade	Gross off-balance sheet commitments	ECL (after the change in accounting estimate)	Net off-balance sheet commitments (after the change in accounting estimate)
Flawless	1	14,683	0	14,683
Excellent	2	7,726	(1)	7,725
Great	3	12,682	0	12,682
Very good	4	6,161	0	6,161
Good	5	7,683	0	7,683
Average	6	3,718	0	3,718
Moderate	7	501	0	501
Increased risk	8	711	0	711
High risk	9	1,406	0	1,406
Highest risk	10	500	0	500
In default	11	1,107	0	1,107
Total		56,878	(1)	56,877

EUR thousand	Risk grade	Gross off-balance sheet commitments	ECL (before the change in accounting estimate)	Net off-balance sheet commitments (before the change in accounting estimate)
Low risk customers	A1	0	0	0
	A2	500	0	500
	A3	6,754	(1)	6,753
	Total	7,254	(1)	7,253
Medium risk customers	B1	6,613	0	6,613
	B2	12,209	0	12,209
	B3	15,048	0	15,048
	Total	33,870	0	33,870
Increased risk customers	C1	8,194	(1)	8,193
	C2	110	0	110
	C3	5,258	0	5,258
	Total	13,562	(1)	13,561
High risk customers	D1	579	(5)	574
	D2	506	0	506
	D3	0	0	0
	Total	1,085	(5)	1,080
Customers with default indication	E1	0	0	0
	E2	0	0	0
	E3	1,107	0	1,107
	Total	1,107	0	1,107
Total		56,878	(7)	56,871

As at 31 December 2022, expected credit losses for off-balance sheet commitments were set by customers risk level as follows:

Group

EUR thousand	Risk grade	Gross off-balance sheet commitments (after the change in accounting policy)	Gross off-balance sheet commitments (before the change in accounting policy)	Expected credit losses	Net off-balance sheet commitments (after the change in accounting policy)	Net off-balance sheet commitments (before the change in accounting policy)
Low risk customers	A1	27,900	28,736	0	27,900	28,736
	A2	3,149	3,149	0	3,149	3,149
	A3	14,589	14,903	0	14,589	14,903
	Total	45,638	46,788	0	45,638	46,788
Medium risk customers	B1	4,252	4,575	0	4,252	4,575
	B2	11,133	11,369	(1)	11,132	11,368
	B3	10,713	11,420	0	10,713	11,420
	Total	26,098	27,364	(1)	26,097	27,363
Increased risk customers	C1	8,039	8,707	(1)	8,038	8,706
	C2	2,951	2,952	(5)	2,946	2,947
	C3	3,555	3,555	(8)	3,547	3,547
	Total	14,545	15,214	(14)	14,531	15,200
High risk customers	D1	214	223	0	214	223
	D2	0	0	0	0	0
	D3	107	119	0	107	119
	Total	321	342	0	321	342
Customers with default indication	E1	0	0	0	0	0
	E2	0	0	0	0	0
	E3	1,109	1,284	0	1,109	1,284
	Total	1,109	1,284	0	1,109	1,284
Total		87,711	90,992	(15)	87,696	90,977

Bank

EUR thousand	Risk grade	Gross off-balance sheet commitments (after the change in accounting policy)	Gross off-balance sheet commitments (before the change in accounting policy)	Expected credit losses	Net off-balance sheet commitments (after the change in accounting policy)	Net off-balance sheet commitments (before the change in accounting policy)
Low risk customers	A1	27,540	28,341	0	27,540	28,341
	A2	2,101	2,101	0	2,101	2,101
	A3	14,293	14,592	0	14,293	14,592
	Total	43,934	45,034	0	43,934	45,034
Medium risk customers	B1	3,830	4,146	0	3,830	4,146
	B2	10,908	11,145	(1)	10,907	11,144
	B3	10,430	11,137	0	10,430	11,137
	Total	25,168	26,428	(1)	25,167	26,427
Increased risk customers	C1	7,927	8,587	(1)	7,926	8,586
	C2	2,832	2,832	(5)	2,827	2,827
	C3	3,414	3,414	(8)	3,406	3,406
	Total	14,173	14,833	(14)	14,159	14,819
High risk customers	D1	100	100	0	100	100
	D2	0	0	0	0	0
	D3	107	119	0	107	119
	Total	207	219	0	207	219
Customers with default indication	E1	0	0	0	0	0
	E2	0	0	0	0	0
	E3	2,527	2,702	0	2,527	2,702
	Total	2,527	2,702	0	2,527	2,702
Total		86,009	89,216	(15)	85,994	89,201

Carrying amount of portfolio at the end of 2023 and 2022 by stages:

Group

EUR thousand			2023 (after the change in accounting estimate)	2023 (before the change in accounting estimate)	2022 (after changes in accounting policy)	2022 (before changes in accounting policy)
Outstanding, gross	Stage 1	Factoring	25,393	33,335	30,804	33,838
	Stage 1	Loans	78,721	87,738	127,449	127,449
	Stage 1	Lease	8,469	14,004	17,790	17,790
	Total		112,583	135,077	176,043	179,077
	Stage 2	Factoring	8,969	1,027	37	41
	Stage 2	Loans	11,849	2,832	5,632	5,632
	Stage 2	Lease	7,424	1,889	1,495	1,495
	Total		28,242	5,748	7,164	7,168
	Stage 3	Factoring	205	205	71	98
	Stage 3	Loans	7,827	7,827	2,276	2,276
	Stage 3	Lease	2,495	2,495	167	167
	Total		10,527	10,527	2,514	2,541
Total			151,352	151,352	185,721	188,786
Expected credit losses	Stage 1	Factoring	(46)	(77)	(37)	(37)
	Stage 1	Loans	(117)	(344)	(566)	(566)
	Stage 1	Lease	(7)	(62)	(78)	(78)
	Total		(170)	(483)	(681)	(681)
	Stage 2	Factoring	(20)	(5)	(3)	(3)
	Stage 2	Loans	(88)	(30)	(143)	(143)
	Stage 2	Lease	(285)	(24)	(24)	(24)
	Total		(393)	(59)	(170)	(170)
	Stage 3	Factoring	(118)	(118)	(39)	(39)
	Stage 3	Loans	(1,305)	(1,300)	(742)	(742)
	Stage 3	Lease	(162)	(162)	(19)	(19)
	Total		(1,585)	(1,580)	(800)	(800)
Total			(2,148)	(2,122)	(1,651)	(1,651)
Outstanding, net	Stage 1	Factoring	25,347	33,258	30,767	33,801
	Stage 1	Loans	78,604	87,394	126,883	126,883
	Stage 1	Lease	8,462	13,942	17,712	17,712
	Total		112,413	134,594	175,362	178,396
	Stage 2	Factoring	8,949	1,022	34	38
	Stage 2	Loans	11,761	2,802	5,489	5,489
	Stage 2	Lease	7,139	1,865	1,471	1,471
	Total		27,849	5,689	6,994	6,998
	Stage 3	Factoring	87	87	32	59
	Stage 3	Loans	6,522	6,527	1,534	1,534
	Stage 3	Lease	2,333	2,333	148	148
	Total		8,942	8,947	1,714	1,741
Total			149,204	149,230	184,070	187,135

Bank

EUR thousand			2023 (after the change in accounting estimate)	2023 (before the change in accounting estimate)	2022 (after changes in accounting policy)	2022 (before changes in accounting policy)
Outstanding, gross	Stage 1	Factoring	25,393	33,335	30,710	33,708
	Stage 1	Loans	77,974	85,954	120,532	120,532
	Stage 1	Lease	8,247	13,782	16,728	16,728
	Total		111,614	133,071	167,970	170,968
	Stage 2	Factoring	8,969	1,027	37	41
	Stage 2	Loans	10,576	2,596	5,131	5,131
	Stage 2	Lease	7,389	1,854	1,422	1,422
	Total		26,934	5,477	6,590	6,594
	Stage 3	Factoring	171	171	44	68
	Stage 3	Loans	10,047	10,047	10,650	10,650
	Stage 3	Lease	2,410	2,410	167	167
	Total		12,628	12,628	10,861	10,885
Total			151,176	151,176	185,421	188,447
Expected credit losses	Stage 1	Factoring	(47)	(78)	(36)	(36)
	Stage 1	Loans	(116)	(340)	(519)	(519)
	Stage 1	Lease	(7)	(61)	(66)	(66)
	Total		(170)	(479)	(621)	(621)
	Stage 2	Factoring	(20)	(5)	(3)	(3)
	Stage 2	Loans	(88)	(28)	(128)	(128)
	Stage 2	Lease	(285)	(24)	(21)	(21)
	Total		(393)	(57)	(152)	(152)
	Stage 3	Factoring	(83)	(83)	(8)	(8)
	Stage 3	Loans	(1,324)	(1,319)	(766)	(766)
	Stage 3	Lease	(142)	(142)	(19)	(19)
	Total		(1,549)	(1,544)	(793)	(793)
Total			(2,112)	(2,080)	(1,566)	(1,566)
Outstanding, net	Stage 1	Factoring	25,346	33,257	30,674	33,672
	Stage 1	Loans	77,858	85,614	120,013	120,013
	Stage 1	Lease	8,240	13,721	16,662	16,662
	Total		111,444	132,592	167,349	170,347
	Stage 2	Factoring	8,949	1,022	34	38
	Stage 2	Loans	10,488	2,568	5,003	5,003
	Stage 2	Lease	7,104	1,830	1,401	1,401
	Total		26,541	5,420	6,438	6,442
	Stage 3	Factoring	88	88	36	60
	Stage 3	Loans	8,723	8,728	9,884	9,884
	Stage 3	Lease	2,268	2,268	148	148
	Total		11,079	11,084	10,068	10,092
Total			149,064	149,096	183,854	186,881

Expected credit losses

When calculating expected credit losses, the clients' PDs are adjusted based on the GDP, unemployment and inflation rate forecasts presented by the Ministry of Finance of the Republic of Lithuania. In Latvia, the clients' PDs are adjusted based on the GDP and unemployment rate forecasts presented by the Ministry of Finance of the Republic of Latvia.

The probability of default is adjusted by considering 12-month projections for customers in Stage 1 and three-year projections for customers in Stage 2 based on the contract maturity (one of two ways to adjust the likelihood of bankruptcy of customers in Stage 2).

Expected credit losses are impacted by collateral that can reduce the Group's losses in the event of a customer's bankruptcy. During 2023, the Group did not identify any significant changes in the quality of customer collateral.

There were no financial assets written off in 2023. The Group does not have any financial assets written-off for full recovery in respect of amounts legally due to the Group that have been written-off because they are not expected to be recovered.

The movement of loss allowance in 2023 is summarised by stages as follows:

Group

EUR thousand	**Expected credit losses at the beginning of 2023**	**Change in ECLs**	***Change in expected credit losses due to change in accounting estimate***	**Expected credit losses at the end of 2023**
Provisions for on-balance sheet financial assets:				
Cash and balances at banks				
Stage 1	70	(59)	(19)	11
Stage 2	0	0	0	0
Stage 3	2,494	2	0	2,496
Bonds				
Stage 1	47	(47)	(54)	0
Provisions for on-balance sheet financial assets:				
Stage 1	679	(508)	(313)	171
Stage 2	172	220	334	392
Stage 3	800	785	5	1,585
Total:	4,262	393	(47)	4,655
Provisions for financial liabilities granted:				
Stage 1	15	(14)	(6)	1
Total provisions:	4,277	379	(53)	4,656

Bank

EUR thousand	**Expected credit losses at the beginning of 2023**	**Change in ECLs**	***Change in expected credit losses due to change in accounting estimate***	**Expected credit losses at the end of 2023**
Provisions for on-balance sheet financial assets:				
Cash and balances at banks				
Stage 1	70	(59)	(19)	11
Stage 2	0	0	0	0
Stage 3	0	0	0	0
Bonds				
Stage 1	47	(47)	(54)	0
Provisions for on-balance sheet financial assets:				
Stage 1	621	(451)	(309)	170
Stage 2	152	241	336	393
Stage 3	793	756	5	1,549
Total:	1,683	440	(41)	2,123
Provisions for financial liabilities granted:				
Stage 1	15	(14)	(6)	1
Total provisions:	1,698	426	(47)	2,124

Breakdown of loans in Stage 3 by type of collateral as at 31 December:

Group

EUR thousand	**Gross outstanding, 2023**	**Outstanding, gross (after the change in accounting policy), 2022**	**Outstanding, gross (before the change in accounting policy), 2022**
Real estate	1,445	289	289
Motor and wheeled vehicles	1,516	420	420
Other equipment	188	0	0
National and supranational guarantees	5,115	983	987
Without collateral	2,263	822	845
Total	10,527	2,514	2,541

Bank

EUR thousand	Gross outstanding, 2023	Outstanding, gross (after the change in accounting policy), 2022	Outstanding, gross (before the change in accounting policy), 2022
Real estate	1,377	30	30
Motor and wheeled vehicles	1,350	38	38
Other equipment	188	0	0
National and supranational guarantees	5,083	1,010	1,015
Without collateral	4,630	9,783	9,802
Total	12,628	10,861	10,885

Breakdown of exposures in Stage 3 by type of financing at the end of 2023:

Group

EUR thousand	Outstanding, gross	ECL (after the change in accounting estimate)	ECL (before the change in accounting estimate)	Net outstanding (after the change in accounting estimate)	Net outstanding (before the change in accounting estimate)	Fair value of collateral
Factoring	205	(118)	(118)	87	87	82
Loans	7,827	(1,305)	(1,300)	6,522	6,527	6,149
Lease	2,495	(162)	(162)	2,333	2,333	2,386
Total	10,527	(1,585)	(1,580)	8,942	8,947	8,617

Bank

EUR thousand	Outstanding, gross	ECL (after the change in accounting estimate)	ECL (before the change in accounting estimate)	Net outstanding (after the change in accounting estimate)	Net outstanding (before the change in accounting estimate)	Fair value of collateral
Factoring	171	(83)	(83)	88	88	82
Loans	10,047	(1,324)	(1,319)	8,723	8,728	5,952
Lease	2,410	(142)	(142)	2,268	2,268	2,332
Total	12,628	(1,549)	(1,544)	11,079	11,084	8,366

Breakdown of exposures in Stage 3 by type of financing at the end of 2022:

Group

EUR thousand	Outstanding, gross (after the change in accounting policy)	Outstanding, gross (before the change in accounting policy)	Expected credit losses	Net outstanding (after the change in accounting policy)	Net outstanding (before the change in accounting policy)	Fair value of collateral
Factoring	71	98	(39)	32	59	28
Loans	2,276	2,276	(742)	1,534	1,534	1,475
Lease	167	167	(19)	148	148	142
Total	2,514	2,541	(800)	1,714	1,741	1,645

Bank

EUR thousand	Outstanding, gross (after the change in accounting policy)	Outstanding, gross (before the change in accounting policy)	Expected credit losses	Net outstanding (after the change in accounting policy)	Net outstanding (before the change in accounting policy)	Fair value of collateral
Factoring	44	68	(8)	36	60	28
Loans	10,650	10,650	(766)	9,884	9,884	888
Lease	167	167	(19)	148	148	146
Total	10,861	10,885	(793)	10,068	10,092	1,062

Liquidity risk

Liquidity risk' is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Group's operations and investments.

Liquidity risk management

The Group sets the strategy for managing liquidity risk. The management of the Group approves the Group's liquidity policies and procedures. Chief Financial Officer manages the Group's liquidity position on a day-to-day basis.

The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The key elements of the Group's liquidity strategy are as follows:

- maintaining a diversified financing base, including collection of term deposits (short and long-term) and equity;
- maintaining an asset portfolio diversified by maturity: short-term working capital financing (up to 12 months), medium-term working capital financing (up to 36 months), and loans and lease with a longer maturities (up to 10 years);
- monitoring maturity mismatches, behavioural characteristics of the Group's financial assets and financial liabilities, and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining financing;
- stress testing of the Group's liquidity position against various exposures and specific events;
- Asset-liability committee (ALCO) established by the Group regularly is responsible for monitoring liquidity targets, maturities and prudential indicators. The ALCO Committee decides on financing plans for the Group to meet its performance objectives in terms of financing costs, sources and other liquidity-related elements.

The table below presents remaining contractual maturities for the Group's financial assets and financial liabilities:

Group As at 31 December 2023, EUR thousand	Carrying amount	Gross nominal inflow /(outflow)	0–3 months	3–6 months	6–12 months	More than 1 years
Financial liabilities by type						
Non-derivative financial liabilities						
Customer deposits	178,745	175,161	36,215	29,376	82,973	26,597
Lease liabilities	313	313	26	27	54	207
Total	179,058	175,474	36,241	29,403	83,027	26,804
Financial assets by type						
Non-derivative financial asset						
Factoring and other receivables	34,383	33,963	27,894	4,695	1,277	97
Loans to customers	96,887	98,029	18,432	8,857	19,662	51,078
Lease	17,934	18,267	1,510	1,061	2,358	13,338
State bonds	37,579	37,579	-	-	14,672	22,907
Demand deposits in banks	25,905	25,905	25,905	-	-	-
Other financial assets	764	764	764	-	-	40
Total	209,902	214,507	74,505	14,613	37,969	87,460

Bank **As at 31 December 2023, EUR thousand**	**Carrying amount**	**Gross nominal inflow /(outflow)**	**0–3 months**	**3–6 months**	**6–12 months**	**More than 1 years**
Financial liabilities by type						
Non-derivative financial liabilities						
Customer deposits	178,745	175,161	36,215	29,376	82,973	26,597
Lease liabilities	313	313	26	27	54	207
Total	179,058	175,474	36,241	29,403	83,027	26,804
Financial assets by type						
Non-derivative financial asset						
Factoring and other receivables	34,383	33,936	27,867	4,695	1,277	97
Loans to customers	97,069	98,207	17,871	11,587	18,883	49,866
Lease	17,612	17,927	1 473	1,042	2,288	13,124
State bonds	37,579	37,579	-	-	14,672	22,907
Demand deposits in banks	25,901	25,901	25,901	-	-	-
Other financial assets	765	765	765	-	-	40
Total	213,309	214,315	73,877	17,324	37,120	86,034

Group **As at 31 December 2022, EUR thousand**	**Carrying amount**	**Gross nominal inflow /(outflow)**	**0–3 months**	**3–6 months**	**6–12 months**	**More than 1 years**
Financial liabilities by type						
Non-derivative financial liabilities						
Customer deposits	241,916	240,391	43,198	19,285	98,200	79,708
Lease liabilities	311	311	40	42	82	148
Total	242,227	242,591	43,528	19,456	98,960	80,647
Financial assets by type						
Non-derivative financial asset						
Factoring and other receivables	33,898	33,940	1,035	8,458	8,172	16,274
Loans to customers	134,323	135,154	7,687	1,598	20,578	105,290
Lease	19,331	19,354	-	-	26	19,328
State bonds	22,790	22,790	-	-	-	22,790
Demand deposits in banks	20,000	20,000	20,000	-	-	-
Other financial assets	478	478	478	-	-	-
Total	230,820	231,716	29,200	10,108	28,785	163,563

Bank **As at 31 December 2022, EUR thousand**	**Carrying amount**	**Gross nominal inflow /(outflow)**	**0–3 months**	**3–6 months**	**6–12 months**	**More than 1 years**
Financial liabilities by type						
Non-derivative financial liabilities						
Customer deposits	241,916	240,391	43,198	19,285	98,200	79,708
Lease liabilities	311	311	40	42	82	148
Total	242,591	240,702	43,237	19,327	98,282	79,855
Financial assets by type						
Non-derivative financial asset						
Factoring and other receivables	33,770	33,780	899	8,288	8,213	16,380
Loans to customers	135,317	135,970	14,082	1,596	19,255	101,038
Lease	18,211	18,222	-	-	26	18,196
State bonds	22,790	22,790	-	-	-	22,790
Demand deposits in banks				-	-	-
Other financial assets	472	472	472	-	40	-
Total	210,560	211,234	15,453	9,884	27,534	158,404

Operational risk

Operational risk is defined as the risk that could potentially cause losses due to human errors, inadequate or faulty internal processes, system failures or external events. The Group divides operational risk and its management into the following areas: money laundering, terrorist financing and international sanctions risk, process risk, information and communication technology risk, legal and compliance risk, external risk and personnel risk. External fraud is potentially the biggest operational threat for the Group. There may be some fraud risks involved and some clients may try to exercise fraudulent activity against the Group.

Risks (not audited)	Material/Not Material (not audited)
Operational risk	Material
Money laundering, terrorist financing and international sanctions (hereinafter "ML") risk	Material

Operational and ML risk management

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, the Group's risk management policy requires compliance with all applicable legal and regulatory requirements.

Chief Risk Officer is responsible for the management of operational risk. He also responsible for monitoring operational risk controls. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risk, adequacy of controls and related procedures thereof;
- requirements for the reporting of operational losses and proposed remedial action;
- training and professional development;
- ethical and business standards;
- information technology and cyber risks;
- risk mitigation, including insurance where this is cost-effective.

Compliance with the Group's standards is supported by a program of periodic reviews by Internal Audit. The results of Internal Audit reviews are discussed with the Management of the Group.

The Group has processes in place to mitigate the risks described above by: assessing the documents presented before financing, verifying the compliance with covenants, and, for the purpose of factoring, verifying the invoices submitted and supporting documents in compliance with the Group's procedures. And for the purpose of financing, assessing the appropriateness of the customer's compliance with obligations towards the Group (is not past due, performs other contractual obligations, etc.).

Managing the Group's risks relating to money laundering and terrorist financing and international sanctions is an integral part of its overall risk management system. The Anti-Money Laundering and Counter-Terrorism Financing Compliance Officer is responsible for the day-to-day implementation of the Group's Anti-Money Laundering and Counter-Terrorist Financing Policy and International Sanctions Policy, as well as systems and controls which support and facilitate them. Considering the scope and nature of its business, the Group implements money laundering and terrorist financing, and international sanctions identification, assessment, and management procedures, as well as effective tools to mitigate such risks.

Compliance with prudential requirements

The Bank's and the Financial Group's compliance with prudential ratios as at 31st December 2023 is presented in the table below: The Financial Group consists of PayRay Bank UAB, PayRay SIA, PayRay Estonia OU and 2404 S.A., the Bank's parent company. The table shows the Financial Group's ratios as it is the Financial Group regulated at the consolidated level rather than the Group.

Indicator	Financial Group	Bank
Total capital adequacy ratio	14.06%	29.07%
Leverage ratio	6.40%	13.45%
Liquidity coverage ratio	1,617.35%	1,628.52%
Net stable funding ratio	186.13%	199.90%
Large exposure indicator	36.13%	17.13%

During the reporting period, the Financial Group and the Bank complied with all prudential ratios, except for the large exposure indicator at the Financial Group level. Based on the Financial Group management's estimates, the Financial Group will be in compliance with the large exposure indicator at the Group level at the end of Q2 2024 by implementing the plan of measures prepared by the management of the Financial Group. In accordance with the requirements of legal acts, the Bank's parent company 2404 S.A. is responsible for ensuring the consolidated compliance with the prudential requirements applied to the Financial Group, since the Bank's parent company 2404 S.A. has not appointed the Bank to be responsible for ensuring the consolidated compliance with the applicable prudential requirements.

23. Fair value

The Group and the Bank perform fair value measurements for financial assets and liabilities at amortised cost that are not included in the statement of financial position at fair value.

The carrying amount of the Group's main financial assets and liabilities approximates their fair value. The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. The carrying amount of financial liabilities not measured at fair value approximates their fair value.

Group	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
EUR thousand	**As at 31 December 2023**		**As at 31 December 2022**	
Financial assets				
Cash on hand and balances with central banks	25,905	25,905	66,415	66,415
Loans to customers	97,201	98,158	133,905	133,905
Factoring receivables	34,383	32,902	30,834	30,834
Lease	17,934	18,998	19,331	19,331
Securities issued by governments	37,579	36,689	22,790	22,790
Other financial assets	764	764	215	215
Financial liabilities				
Customer deposits	178,745	173,477	241,916	241,916
Payables	3,853	3,853	3,263	3,263

Bank	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
EUR thousand	**As at 31 December 2023**		**As at 31 December 2022**	
Financial assets				
Cash on hand and balances with central banks	25,901	25,901	66,413	66,413
Loans to customers	97,383	98,649	134,900	134,900
Factoring receivables	34,383	32,895	30,744	30,744
Lease	17,612	18,663	18,211	18,211
Securities issued by governments	37,579	36,689	22,790	22,790
Investments into subsidiaries	-	-	3	3
Other financial assets	765	765	472	472
Financial liabilities				
Customer deposits	178,745	173,477	241,916	241,916
Payables	3,826	3,826	3,224	3,224

Quantitative disclosures of the Group's financial assets and liabilities in the fair value measurement hierarchy as at 31 December 2023:

Group EUR thousand	Level 1	Level 2	Level 3	Total
Financial assets				
Cash on hand and balances with central banks	25,905			**25,905**
Loans to customers		98,158		**98,158**
Factoring and other receivables		32,902		**32,902**
Lease		18,998		**18,998**
Securities issued by governments	36,689			**36,689**
Other financial assets		764		**764**
Financial liabilities				
Customer deposits		173,477		**173,477**
Payables		3,853		**3,853**

Bank EUR thousand	Level 1	Level 2	Level 3	Total
Financial assets				
Cash on hand and balances with central banks	25,901			**25,901**
Loans to customers		98,649		**98,649**
Factoring and other receivables		32,895		**32,895**
Lease		18,663		**18,663**
Securities issued by governments	36,689			**36,689**
Investments into subsidiaries			-	**-**
Other financial assets		765		**765**
Financial liabilities				
Customer deposits		173,477		**173,477**
Payables		3,826		**3,826**

Quantitative disclosures of the Group's financial assets and liabilities in the fair value measurement hierarchy as at 31 December 2022:

Group EUR thousand	Level 1	Level 2	Level 3	Total
Financial assets				
Cash on hand and balances with central banks	66,415			**66,415**
Loans to customers		133,905		**133,905**
Factoring and other receivables		30,834		**30,834**
Lease		19,331		**19,331**
Securities issued by governments	22,790			**22,790**
Other financial assets		215		**215**
Financial liabilities				
Customer deposits		241,916		**241,916**
Payables		3,263		**3,263**

Bank **EUR thousand**	Level 1	Level 2	Level 3	Total
Financial assets				
Cash on hand and balances with central banks	66,413			**66,413**
Loans to customers		134,900		**134,900**
Factoring and other receivables		30,744		**30,744**
Lease		18,211		**18,211**
Securities issued by governments	22,790			**22,790**
Investments into subsidiaries			3	**3**
Other financial assets		472		**472**
Financial liabilities				
Customer deposits		241,916		**241,916**
Payables		3,224		**3,224**

The objective of using a fair value valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange. The Group and the Bank use different valuation technique to determine the fair value of a financial instrument: quoted prices in active markets, valuation techniques based on observable inputs and valuation techniques based on internal models.

Level 1 Quoted market prices

Level 1 assessments are made using unadjusted identical instrument quoted prices in active markets, where quoted prices are easily available and reflect factual and regularly performed market transactions between unrelated parties. For disclosure purposes, the Group and the Bank attribute purchases of government debt securities and cash and balances with central banks to Level 1 in the fair value hierarchy.

Level 2 Assessing method using observable data

Fair value calculated using level 2 methods, when variables that have material impact on the fair value, is directly or indirectly available in the market. Using assessment methods of level 2, discounted cash flows, option pricing methods, latest transactions and other financial instrument that are basically the same, prices are utilised. For disclosure purposes, the Group and the Bank attribute financing granted to natural and legal persons, deposits from natural and legal persons, other financial assets and payables to Level 2 in the fair value hierarchy.

Level 3 Assessing method using significant unobservable data

Fair value calculated using level 3 methods, when the lowest-level variables that have reasonable impact on the fair value, are not supported by available market data. Such methods usually include extrapolation of similar observed data, analysis of historical data and implementation of other analytical methods. For disclosure purposes, the Group and the Bank attribute investments in the subsidiaries' assets to Level 3 in the fair value hierarchy.

In estimating the fair value of fixed- and variable-rate loans, factoring receivables and Leases, future cash flows are discounted at a market rate, adjusted by a margin for new lending. Similar valuation technique is used in estimating the fair value of the customer deposit liabilities.

24. Restatement of comparative information

The Group and the Bank reviewed and changed the methodology for grouping individual items in the financial statements to more accurately reflect the Group's and the Bank's financial performance and financial position. The comparative information for 2022 was restated accordingly. The financial data for 2022 were also adjusted in accordance with the decision of the Board of the Bank of Lithuania, the interpretation of the State Tax Inspectorate (STI), as well as the accounting inaccuracies in prior periods identified by Group and the Bank.

The impact of the adjustments on the Group's and the Bank's financial statements is presented below:

Notes to the financial statements

Statement of financial position

Group	As at 31 December 2022			
EUR thousand	Before restatement	Correction of errors	Regrouping / impact of change in accounting policy	After restatement
Assets				
Cash on hand and balances with central banks	66,401	-	14	66,415
Securities issued by governments	22,790	-	-	22,790
Loans to customers and factoring receivables	186,934	134	(2,864)	184,070
Intangible assets	1,589	(1,225)	-	364
Property, plant and equipment	296	-	-	296
Right-of-use assets	309	-	-	309
Deferred tax asset	528	91	-	619
Other financial assets	215		262	229
Other assets	114		(29)	85
Total assets	279,177	(1,000)	(2,750)	275,426
Liabilities				
Customer deposits	241,916	-	-	241,916
Lease liabilities	311	-	-	311
Payables	6,610	(515)	(2,832)	3,263
Provisions for off-balance sheet liabilities	18	-	-	18
Other liabilities	350	-	82	432
Total liabilities	249,206	(515)	(2,750)	249,940
Equity				
Issued capital	36,425	-	-	36,425
Retained earnings	(6,335)	(485)	(120)	(6,939)
Profit (loss) not recognized in statement of profit and loss and other comprehensive income	(120)	-	120	-
Total equity	29,970	(485)	-	29,486
Total equity and liabilities	279,177	(1,000)	(2,750)	275,426

Bank

EUR thousand	As at 31 December 2022			
	Before restatement	Correction of errors	Regrouping / impact of change in accounting policy	After restatement
Assets				
Cash on hand and balances with central banks	66,399	-	14	66,413
Securities issued by governments	22,790	-	-	22,790
Loans to customers and factoring receivables	186,681	134	(2,960)	186,854
Investments into subsidiaries	3	-	-	3
Intangible assets	1,589	(1,225)	-	364
Property, plant and equipment	275	-	-	275
Right-of-use assets	309	-	-	309
Deferred tax asset	528	91	-	619
Other financial assets	209	-	262	223
Other assets	248		(29)	468
Total assets	279,031	(1,000)	(3,713)	275,318
Liabilities				
Customer deposits	241,916	-	-	241,916
Lease liabilities	311	-	-	311
Payables	6,518	(515)	(2,779)	3,224
Provisions for off-balance sheet liabilities	18	-	-	18
Other liabilities	314	-	66	380
Total liabilities	249,077	(515)	(2,713)	245,849
Equity				
Issued capital	36,425	-	-	36,425
Retained earnings	(6,352)	(485)	(120)	(6,956)
Profit (loss) not recognized in statement of profit and loss and other comprehensive income	(120)	-	120	-
Total equity	29,953	(485)	-	29,469
Total equity and liabilities	279,031	(1,000)	(2,713)	275,318

Statement of profit or loss or other comprehensive income

Group	As at 31 December 2022			
EUR thousand	**Before restatement**	**Correction of errors**	**Regrouping / impact of change in accounting policy**	**After restatement**
Interest income calculated using effective interest method	11,854	134	131	12,119
Interest expenses	(3,091)	-	-	(3,091)
Net interest income (expense)	**8,763**	**134**	**131**	**9,028**
Commission income	145	-	5	150
Commission expenses	(44)	-	(7)	(51)
Net commission income (expenses)	**101**	**-**	**(2)**	**99**
Other operating income	212	-	(136)	76
Other operating expenses	-	-	(80)	(80)
Credit loss allowance	(3,115)	-	-	(3,115)
Payroll expenses	(5,289)	(356)	(5)	(5,650)
Depreciation/amortisation and impairment of property, plant and equipment and intangible assets:	(645)	279	-	(366)
Administrative expenses	(3,849)	55	92	(3,700)
Finance costs	(12)	-	-	(12)
Profit (loss) before tax	**(3,835)**	**112**	**-**	**(3,720)**
Income tax expense	151	(12)	-	139
Profit (loss) for the year	**(3,684)**	**100**	**-**	**(3,581)**
Other comprehensive income	-	-	-	-
Total other comprehensive income, net of tax	**(3,684)**	**100**	**-**	**(3,581)**

Notes to the financial statements

for the year ended 31 December 2023

Bank	As at 31 December 2022			
EUR thousand	Before restatement	Correction of errors	Regrouping / impact of change in accounting policy	After restatement
Interest income calculated using effective interest method	11,164	134	133	11,431
Interest expenses	(3,091)	-	-	(3,091)
Net interest income (expense)	**8,072**	**134**	**133**	**8,340**
Commission income	145	-	3	148
Commission expenses	(34)	-	(7)	(41)
Net commission income (expenses)	**112**	**-**	**(4)**	**107**
Other operating income	280	-	(136)	144
Other operating expenses	-	-	(85)	(85)
Impairment of investments in subsidiaries	(3,000)	-	-	(3,000)
Credit loss allowance	(603)	-	-	(603)
Payroll expenses	(4,963)	(356)	(5)	(5,324)
Depreciation/amortisation and impairment of property, plant and equipment and intangible assets:	(616)	279	-	(337)
Administrative expenses	(3,625)	55	97	(3,472)
Finance costs	(5)	-	-	(5)
Profit (loss) before tax	**(4,347)**	**112**	**-**	**(4,235)**
Income tax expense	152	(12)	-	140
Profit (loss) for the year	**(4,196)**	**100**	**-**	**(4,095)**
Other comprehensive income	-	-	-	-
Total other comprehensive income, net of tax	**(4,196)**	**100**	**-**	**(4,095)**

Statement of cash flows

	As at 31 December 2022					
	Before restatement		Restatement		After restatement	
EUR thousand	Group	Bank	Group	Bank	Group	Bank
Profit (loss) for the year	**(3,684)**	**(4,196)**	**101**	**101**	**(3,581)**	**(4,095)**
Operating activities						
Credit loss allowance	3,115	603	1	-	3,116	603
Interest income	(11,854)	(11,164)	(265)	(267)	(12,119)	(11,431)
Interest expenses	3,091	3,091	-	-	3,091	3,091
Depreciation of property, plant and equipment and amortization of intangible assets	882	871	(553)	(553)	329	318
Impairment of investments in shares of subsidiaries	-	3,000	-	-	-	3,000
Change in deferred tax	(152)	(152)	12	12	(140)	(140)
Other non-cash transactions elimination	(2,331)	(35)	311	314	(2,020)	279
Total adjustments to operating activities	**(7,248)**	**(3,786)**	**(496)**	**(494)**	**(7,744)**	**(4,280)**
Working capital adjustments						
Net change in loans granted	(63,341)	(63,972)	(463)	(372)	(63,804)	(64,344)
Change in trade and other receivables	(167)	(101)	(262)	(262)	(429)	(363)
Changes in other assets	(64)	(219)	29	28	(35)	(191)
Changes in customer deposits	98,915	98,915	-	-	98,914	98,914
Change in payables	1,866	1,881	(130)	(169)	1,736	1,712
Changes in other liabilities	202	165	81	66	283	231
Total changes in assets and liabilities of operating activities	**37,411**	**36,668**	**(746)**	**(709)**	**36,665**	**35,959**
Interest received	11,397	10,650	269	232	11,664	10,882
Interest paid	(1,650)	(1,650)	-	-	(1,650)	(1,650)
Net cash flows from operating activities	**36,256**	**37,687**	**(901)**	**(871)**	**35,355**	**36,816**
Investing activities						
Investments in subsidiaries	-	(1,000)	-	-	-	(1,000)
Acquisition of securities issued by governments	(22,733)	(22,733)	-	(1)	(22,733)	(22,734)
Acquisition of property, plant and equipment	501	(491)	(1 002)	-	(501)	(491)
Acquisition of intangible assets	(1,658)	(1,657)	885	884	(773)	(773)
Net cash flows used in investing activities	**(24,892)**	**(25,882)**	**885**	**885**	**(24,007)**	**(24,997)**
Financing activities						
Lease payments	(23)	71	(1)	-	(24)	71
Net cash flows from/used in financing activities	**(23)**	**71**	**(1)**	**-**	**(24)**	**71**
Increase (decrease) of cash and cash equivalents	11,311	11,875	13	15	11,324	11,890
Cash and cash equivalents at the beginning of the year/period	**55,091**	**54,523**	-	-	**55,091**	**54,523**
Cash and cash equivalents as at 31 December	**66,401**	**66,399**	**14**	**14**	**66,415**	**66,413**

The following is an explanation of the adjustments made in the financial statements for prior periods and their impact on the financial statements of the Group and the Bank.

Intangible assets

EUR thousand	2022 Group	2022 Bank
Adjustments to the items of the statement of financial position:		
Adjustment to the carrying amount of intangible assets	(1,225)	(1,225)
Retained earnings (loss)	(1,225)	(1,225)
Profit (loss) for the reporting period	*(636)*	*(636)*
Retained earnings (loss) from prior periods	*(589)*	*(589)*
Adjustments to the items of the statement of profit or loss:		
Payroll expenses	(540)	(540)
Administrative expenses	(359)	(359)
Amortization of intangible assets	233	233

The adjustment to the carrying amount of intangible assets was made to remedy the deficiencies indicated in the decision of the Board of the Bank of Lithuania of 15 January 2024. Given the decision of the Board of the Bank of Lithuania, the Group adjusted the definition and recognition criteria for intangible assets in accordance with IAS 38. As a result, the Group carried out a review of intangible assets as at 31 December 2023 and determined that some of the Group's intangible assets did not meet the definition or recognition criteria for intangible assets. The Group estimated that the carrying amount of intangible assets should be EUR 1,225 thousand lower than disclosed in the financial statements for the year ended 31 December 2022. To correct the identified error, the financial figures for 2019-2022 were restated, resulting in an increase in the retained loss due to higher wage and salary expenses, administrative expenses and lower amortisation of intangible assets.

Value added tax

EUR thousand	2022 Group	2022 Bank
Adjustments to the items of the statement of financial position:		
Payables (value added tax)	(235)	(235)
Retained earnings (loss)	(235)	(235)
Profit (loss) for the reporting period	*365*	*365*
Retained earnings (loss) from prior periods	*(130)*	*(130)*
Adjustments to the items of the statement of profit or loss:		
Administrative expenses	365	365

The Bank has contacted the State Tax Inspectorate for clarification on the treatment of leasing transactions for the purpose of calculating the VAT deduction. The Bank revised its VAT returns for 2020-2022 based on the clarification received. The adjustments made to the VAT returns resulted in an increase in the Group's and the Bank's accumulated loss as at 31 December 2021 of EUR 130 thousand, a decrease in payables as at 31 December 2022 of EUR 235 thousand and a decrease in administrative expenses in 2022 of EUR 365 thousand.

Wages and salaries

EUR thousand	2022 Group	2022 Bank
Adjustments to the items of the statement of financial position:		
Payables (payroll-related liabilities)	(185)	(185)
Retained earnings (loss)	185	185
Profit (loss) for the reporting period	*185*	*185*
Retained earnings (loss) from prior periods	-	-
Adjustments to the items of the statement of profit or loss:		
Payroll expenses	185	185

The Group identified and corrected an error related to the accrual of payroll-related expenses for employees in Italy. The correction of the error resulted in a decrease in accrued expenses by EUR 185 thousand as at 31 December 2022 and a corresponding decrease in wage and salary expenses for 2022.

Factoring payables (reserve)

EUR thousand	2022 Group	2022 Bank
Adjustments to the items of the statement of financial position:		
Payable (factoring reserve)	(95)	(95)
Retained earnings (loss)	95	95
Profit (loss) for the reporting period	*95*	*95*
Retained earnings (loss) from prior periods	-	-
Adjustments to the items of the statement of profit or loss:		
Administrative expenses	95	95

The Group identified and corrected an error relating to factoring payables. The correction of the error resulted in a decrease of factoring payable (reserve) by EUR 95 thousand as at 31 December 2022 and a corresponding decrease in administrative expenses in 2022.

Deferred income

EUR thousand	2022 Group	2022 Bank
Adjustments to the items of the statement of financial position:		
Loans to customers and factoring receivables	134	134
Retained earnings (loss)	134	134
Profit (loss) for the reporting period	*134*	*134*
Retained earnings (loss) from prior periods	-	-
Adjustments to the items of the statement of profit or loss:		
Interest income calculated using effective interest method	134	134

In 2022, the Group did not recognise all the revenue from contracts with customers during the reporting period and incorrectly disclosed deferred income related to contract fees. The correction of the error resulted in a EUR 134 thousand increase in interest income in 2022 and a corresponding increase in deferred income, which are reported under "Loans to customers and factoring receivables".

Deferred tax asset

EUR thousand	2022	
	Group	Bank
Adjustments to the items of the statement of financial position:		
Deferred tax asset	91	91
Retained earnings (loss)	91	91
Profit (loss) for the reporting period	*(12)*	*(12)*
Retained earnings (loss) from prior periods	*103*	*103*
Adjustments to the items of the statement of profit or loss:		
Income tax expense	(12)	(12)

The Group has recalculated the deferred tax asset for 2022 based on the adjustments described above. Deferred tax assets increased by EUR 91 thousand due to a higher accumulated tax loss in prior periods. The adjustment resulted in a EUR 12 thousand increase in the Group's and Bank's income tax expense in 2022.

25. Notes

Contingent liabilities

The Group is not involved legal proceedings as a defendant or third party.

Business acquisition

Optima Information Technology Srl is a financial software development company based in Pistoia, Italy, developing and providing individual software ordering solutions to the Group since 2018. The acquired business will therefore be a key asset for the Group, playing a strategic role in digitizing and improving the Group's processes, providing access to a scope-customized software for international expansion, as well as access to an in-house software development team. The acquired business includes contracts with 13 specialized employees.

The business was acquired for EUR 1.00. The acquisition does not fall within the scope of IFRS 3 Business combinations, and it has been accounted for at book values with balance sheet difference recognized in the Group's equity as a negative reserve, according to common practice for business combinations under common control.

Business acquisition is presented in the statements of financial position.

Group **EUR thousand**	**As at 31 March 2022**
Property, plant and equipment	12
Intangible assets	449
Receivables	109
Total disposed assets	**570**
Employee benefits	92
Trade payables and other current liabilities	598
Total disposed liabilities, related to disposed assets	**690**
Loss from business acquisition	120
Total loss from business acquisition	**120**

Significant events after the end of the reporting period

In 2023, the Bank of Lithuania carried out a non-routine inspection of the Bank on the issues of the Bank's governance, the management of internal control, credit risk, liquidity risk and interest rate risk in the banking book, operational risk management and management of transfer of operational functions areas. On 15 January 2024, the Board of the Bank of Lithuania adopted a resolution, which obliged the Bank to remedy the breaches of the legal acts and deficiencies in the aforementioned areas, as well as imposed a fine of EUR 210 thousand. Most of the breaches and deficiencies identified by the Bank of Lithuania were remedied before the inspection findings were considered by the Board of the Bank of Lithuania, while the remaining deficiencies were remedied by the 30 April 2024.

Head of Administration		2024.04.30
Renato La Fianza	*(signature)*	*(date)*
Chief Financial Officer		2024.04.30
Simonas Skaržauskas	*(signature)*	*(date)*